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IMPACT OF FOREIGN DIRECT INVESTMENT (FDI) ON NIGERIA'S PUBLIC DEBT STOCK

Abstract

The rising public debt stock in Nigeria, amid declining foreign direct investment (FDI) inflows, raises growing concerns about fiscal sustainability and the macroeconomic implications of capital movements in a commodity-dependent economy. This study examines the impact of FDI on Nigeria's public debt stock from 1981 to 2024, while accounting for the mediating roles of exchange rate, interest rate, and GDP growth. The study is anchored on Dunning's OLI Framework and the Absorptive Capacity Framework, providing an integrated theoretical lens for interpreting the fiscal implications of foreign capital in the Nigerian context. Using the Augmented Dickey-Fuller (ADF) unit root test, Johansen cointegration test, and Vector Error Correction Model (VECM), the study establishes both short-run dynamics and long-run equilibrium relationships. Results show that FDI significantly reduces public debt in the long run ($\beta = -0.7427$, $t = -5.194$), exchange rate depreciation significantly amplifies debt accumulation ($\beta = 1.746$, $t = 7.345$), and GDP growth exerts a stabilizing debt-reducing effect ($\beta = -1.117$, $t = -2.403$). Interest rates are largely insignificant in the long run but exert meaningful short-run pressure. The error correction term (-0.1344) confirms stable equilibrium convergence at 13.4% annually. The study concludes that FDI can reduce Nigeria's debt burden when accompanied by exchange rate stability and broad-based economic growth. Policy recommendations include attracting diversified and productive FDI, stabilizing the naira, pursuing growth-enhancing structural reforms, and coordinating fiscal and monetary policies.

Keywords: *Foreign Direct Investment, Public Debt, Exchange Rate, GDP Growth, VECM, OLI Framework, Absorptive Capacity, Nigeria*

1. INTRODUCTION

Nigeria's mounting public debt alongside declining foreign direct investment (FDI) inflows presents one of the most pressing fiscal policy challenges of the post-independence era. Classical economic theory contends that FDI reduces fiscal pressure by supplementing domestic savings, generating employment, and expanding the tax base thereby reducing a government's need for debt financing (Borensztein, De Gregorio & Lee, 1998).

Nigeria's experience, however, defies this expectation. Despite successive waves of structural reforms, liberalization policies, and investment promotion efforts spanning over four decades, public debt has risen sharply while FDI inflows have weakened considerably, raising fundamental questions about whether FDI is fulfilling its anticipated developmental and fiscal role in the Nigerian context.

Nigeria's debt trajectory has been shaped by recurring cycles of commodity price shocks, weak fiscal management, and structural dependence on oil revenue. The 1970s oil boom encouraged the government to contract large-scale external loans including the USD 1 billion Jumbo Loan of 1978 under the assumption that oil revenue would comfortably service these obligations. The global oil price collapse of the early 1980s shattered that assumption, driving external debt from USD 8.94 billion in 1980 to USD 18.6 billion by 1985 (CBN, 2006). The Structural Adjustment Programme of 1986, while intended to restore macroeconomic stability, introduced sharp naira devaluations that further inflated the domestic cost of foreign-denominated obligations.

The landmark 2005 Paris Club debt cancellation reduced Nigeria's external debt from USD 36 billion to approximately USD 3.5 billion (DMO, 2006), creating optimism about a new era of fiscal discipline. However, oil revenue volatility following the 2014 global oil price crash, GDP contractions in both 2016 and 2020, and the COVID-19 pandemic reversed earlier gains rapidly. By Q1 2024, total public debt stood at ₦97.3 trillion, equivalent to approximately 42% of GDP up from just 12% in 2008 (DMO, 2024). Over the same period, FDI inflows declined from a peak of USD 8.8 billion in 2011 to just USD 1.2 billion in 2023 (CBN, 2024). The 2023 naira floatation compounded matters further: a 200% depreciation inflated the domestic cost of foreign-denominated obligations astronomically. With external debt constituting roughly 60% of total public debt, exchange rate volatility has become one of the most consequential fiscal risks facing Nigeria. IMF (2024) estimates that debt servicing now absorbs over 70% of federally collected revenue.

Against this backdrop, this study examines whether, and under what macroeconomic conditions, FDI exerts a debt-reducing effect in Nigeria. Four research questions guide the study: (i) What is the impact of FDI on Nigeria's public debt stock? (ii) How does exchange rate affect public debt? (iii) What is the effect of interest rate on debt accumulation? (iv) To what extent does GDP growth impact debt dynamics? Four corresponding null hypotheses are empirically tested. The remainder of the paper is organized as follows: Section 2 reviews the literature; Section 3 outlines the methodology; Section 4 presents empirical results; Section 5 concludes with recommendations.

2. LITERATURE REVIEW

2.1 Conceptual Literature Review

2.1.1 Foreign Direct Investment

Foreign Direct Investment (FDI) refers to a cross-border investment through which an investor in one country acquires a lasting interest and meaningful degree of control or influence over an enterprise in another country (OECD, 2022). In Nigeria, FDI has been heavily concentrated in the oil

and gas sector, limiting broad-based fiscal spillovers due to the enclave nature of extractive investment characterized by weak backward linkages, capital repatriation, and minimal employment relative to investment scale (Aremu, 2005).

2.1.2 Public Debt

Public debt refers to the total financial obligations incurred by a government through borrowing from domestic or foreign sources to finance budget deficits and capital expenditure (Essien, 1993). While moderate borrowing directed at productive investment can be beneficial, excessive debt generates overhang effects, crowds out private investment, and constrains fiscal space trapping economies in debt-servicing cycles that undermine development (Krugman, 1988).

2.1.3 Control Variables

Exchange rate is the naira-to-dollar rate that determines the domestic cost of foreign-denominated debt obligations; currency depreciation mechanically inflates the effective debt stock (Iyoha, 2004). Interest rate, proxied by the CBN Monetary Policy Rate, determines the cost of domestic government borrowing and can crowd out private investment from credit markets (Barro, 1979). GDP growth is the most direct fiscal stabilizer: faster expansion expands the tax base, generates fiscal surpluses, and reduces the debt-to-GDP ratio through the denominator effect (Solow, 1956).

2.2 Theoretical Review

This study anchors its theoretical interpretation on two complementary frameworks Dunning's Eclectic Paradigm (OLI Framework) and the Absorptive Capacity Framework which jointly explain both why FDI enters a country and the conditions under which it generates the fiscal outcomes that can reduce public debt.

2.2.1 Dunning's Eclectic Paradigm (OLI Framework)

Dunning's Eclectic Paradigm (1980, 1988) explains FDI location decisions through three advantages: Ownership (firm-specific assets such as technology, brand equity, and management expertise), Location (host country attributes including natural resources, market size, and institutional environment), and Internalization (why firms prefer direct investment over licensing to protect proprietary assets). Applied to Nigeria, the framework reveals a location advantage paradox: while vast oil reserves and a large consumer market attract FDI, poor infrastructure, governance deficits, and policy inconsistency confine investment to extractive enclaves. The government is simultaneously compelled to borrow to provide the complementary public goods that foreign investors demand roads, power, and security meaning FDI attraction can paradoxically add to public debt in the short run. The debt-reducing potential of FDI is realized only when investments generate sufficient tax revenue, employment, and growth to strengthen fiscal fundamentals.

2.2.2 Absorptive Capacity Framework

The Absorptive Capacity Framework, developed by Cohen and Levinthal (1990) and extended to macroeconomic analysis by Borensztein, De Gregorio and Lee (1998), posits that a host country's

ability to productively harness foreign capital and generate spillovers technology diffusion, human capital upgrading, and tax base expansion depends on its absorptive capacity: human capital quality, financial market depth, institutional quality, infrastructure adequacy, and trade openness. Nigeria's absorptive capacity has been persistently constrained across all these dimensions. These constraints explain the central paradox motivating this study: even though FDI's long-run coefficient is statistically debt-reducing, absolute public debt has continued to rise because FDI inflows averaging only 1.2% of GDP were insufficient in scale, concentrated in enclaves, and undermined by simultaneous exchange rate depreciation that amplified external debt costs faster than any FDI-related improvement could counteract.

2.3 Empirical Literature Review

At the international level, Jamsheed (2024) examined FDI, foreign debt, and economic growth in South Asia (1980–2020) using VECM and found that FDI positively influences long-run growth, while excessive debt dampens prospects through fiscal drag. Luk and Zheng (2020), studying emerging economies (1990–2017), documented a substitutive relationship between FDI and external public debt, with higher inflows significantly reducing sovereign borrowing, particularly where financial systems are deeper underscoring the relevance of absorptive capacity.

In the African context, Agyapong and Bedjabeng (2020) found that high external debt discourages FDI across African economies, creating a vicious cycle. Akinola and Ohonba (2024) documented the co-existence of rising debt servicing and fluctuating FDI in Nigeria, attributing the failure of FDI to reduce debt to absent structural reforms. Irughe et al. (2025) identified an inverted U-shaped relationship between public debt and FDI in Nigeria, suggesting moderate debt may attract FDI but excessive levels ultimately deter investors.

On the exchange rate–debt nexus, Favaretto (2023) demonstrated using VECM that elevated debt disrupts uncovered interest parity, generating feedback loops between currency depreciation and debt accumulation. Odoom et al. (2025) confirmed significant long-run fiscal consequences of exchange rate volatility in Ghana, while Ramoni-Perazzi and Romero (2022) showed that currency instability raises debt indirectly by depressing growth and the tax base. Within Nigeria, Adewole and Irmiya (2025) found that GDP growth and exchange rate significantly influence FDI inflows, while interest rates exhibit weaker effects.

2.4 Gap in Literature

Most existing studies examine FDI's fiscal effects in bilateral frameworks that cannot capture interaction effects among FDI, exchange rate, interest rate, and GDP simultaneously. Datasets predominantly end before 2020, precluding analysis of COVID-19 disruptions and the transformative 2023 naira floatation. There is also limited application of the combined OLI and Absorptive Capacity frameworks as an integrated theoretical lens for interpreting FDI–debt dynamics in Nigeria. This study bridges these gaps using a comprehensive VECM framework with data through 2024.

3. RESEARCH METHODOLOGY

3.1 Research Design and Data

This study adopts an ex-post facto research design using historical annual macroeconomic data for Nigeria from 1981 to 2024. Secondary data were obtained from the Debt Management Office (DMO) Annual Reports, the Central Bank of Nigeria (CBN) Statistical Bulletins, and the World Bank Development Indicators (WDI) database. The 44-year period captures major macroeconomic events; the 1980s debt crisis, the 1986 SAP, the 2005 Paris Club relief, the 2008 global financial crisis, the 2015–2016 and 2020 recessions, and the 2023 naira floatation providing a comprehensive macroeconomic canvas across different fiscal and monetary regimes.

3.2 Model Specification

The Vector Error Correction Model (VECM) is employed as the primary estimation technique. VECM is appropriate when time-series variables are non-stationary at levels but cointegrated, enabling simultaneous estimation of short-run dynamics and long-run equilibrium adjustments. The functional relationship is: PDS = f(FDI, REER, INT, GDP), where PDS is Total Public Debt Stock (% of GDP), FDI is Net FDI Inflows (% of GDP), REER is the Real Effective Exchange Rate (2010 = 100), INT is the CBN Monetary Policy Rate (%), and GDP is Real GDP Growth Rate (%). The econometric form is:

$$PDSt = \beta_0 + \beta_1 FDIt + \beta_2 REERt + \beta_3 INTt + \beta_4 GDPt + \varepsilon t$$

The VECM short-run error correction equation is:

$$\Delta PDSt = \lambda ECTt\text{-}1 + \Sigma\gamma_{1i}\Delta PDSt\text{-}_i + \Sigma\gamma_{2i}\Delta FDIt\text{-}_i + \Sigma\gamma_{3i}\Delta REERt\text{-}_i + \Sigma\gamma_{4i}\Delta INTt\text{-}_i + \Sigma\gamma_{5i}\Delta GDPt\text{-}_i + \varepsilon_1 t$$

A negative and statistically significant error correction term (λ) confirms cointegration and long-run equilibrium convergence. Pre-estimation tests include ADF unit root tests, VAR lag selection by AIC, and Johansen cointegration. Post-estimation diagnostics cover residual normality (Jarque-Bera), serial correlation (Breusch-Godfrey LM), and heteroskedasticity (Breusch-Pagan-Godfrey).

Table 1: Variable Definition, Measurement, and Expected Sign

Variable	Definition	Measurement	Expected Sign	Source
PDS	Total public debt (domestic + external)	% of GDP	Dependent	DMO
FDI	Net foreign direct investment inflows	% of GDP	Negative (−)	WDI
REER	Real effective exchange rate, trade-weighted	Index (2010=100)	Positive (+)	World Bank
INT	CBN monetary policy rate	Annual (%)	Positive (+)	CBN
GDP	Real GDP annual growth rate	Annual (%)	Negative (−)	WDI

Source: Researcher's compilation (2026)

4. DATA PRESENTATION AND ANALYSIS

4.1 Descriptive Statistics

Table 2: Descriptive Statistics (1981–2024)

Statistic	PDS (% GDP)	FDI (% GDP)	REER	INT (%)	GDP (%)
Mean	35.418	1.197	144.440	17.132	3.029
Median	28.430	0.961	101.038	16.750	3.226
Maximum	93.700	4.282	536.897	31.650	15.329
Minimum	7.276	-0.039	49.775	9.500	-13.128
Std. Dev.	21.025	0.948	112.476	4.579	5.195
Skewness	0.774	0.963	2.038	0.709	-0.841
Kurtosis	2.905	3.767	6.488	4.257	4.947
Jarque-Bera	4.408	7.873	52.759	6.581	12.137
Probability	0.110	0.020	0.000	0.037	0.002
Observations	44	44	44	44	44

Source: Researcher's computation using EViews 13 (2026)

Public debt averaged 35.42% of GDP with a standard deviation of 21.03, reflecting significant fiscal volatility. The mean exceeds the median (28.43%), driven by episodic debt spikes particularly the 93.7% peak during the 1980s debt crisis. FDI averaged only 1.20% of GDP with occasional capital reversals (−0.039%), contextualizing why even a statistically significant FDI coefficient cannot produce large absolute fiscal improvements at this scale. The REER exhibits extreme positive skewness (2.038) and kurtosis (6.488) from the 1986 SAP devaluation, successive adjustments in the 1990s, and the 2023 floatation. GDP growth averaged 3.03% marginally above the population growth rate of 2.6% implying negligible per capita expansion and a constrained revenue base. Interest rates averaged 17.13%, reflecting persistently tight monetary policy with direct implications for domestic debt servicing costs.

4.2 Pre-Estimation Tests

4.2.1 Unit Root Tests

Table 3: ADF Unit Root Test Results

Variable	ADF t-stat (Level)	p-value	ADF t-stat (1st Diff.)	p-value	Order
PDS	-1.9609	0.3024	-6.3317	0.0000	I(1)
FDI	-1.7223	0.4132	-8.8335	0.0000	I(1)
REER	-2.1500	0.2270	-4.4834	0.0008	I(1)
INT	-2.2732	0.1850	-5.9096	0.0000	I(1)
GDP	-0.8882	0.7825	-6.8647	0.0000	I(1)

Note: Intercept and trend included. PP test corroborates all findings. Source: EViews 13 (2026)

All five variables are non-stationary at levels but stationary after first differencing, confirming uniform I(1) integration the prerequisite for Johansen cointegration testing and the VECM approach.

4.2.2 Lag Selection and Johansen Cointegration

Table 4: VAR Lag Order Selection Criteria

Lag	LogL	LR	FPE	AIC*	SC	HQ
0	-1152.282	NA	2.26e+18	56.4528	56.6617	56.5289
1	-1016.558	231.7243	1.03e+16	51.0516	52.3054*	51.5082*
2	-989.822	39.1247*	1.00e+16*	50.9670*	53.2656	51.8040
3	-971.626	22.1907	1.63e+16	51.2988	54.6424	52.5164

** Criterion-selected lag. Source: EViews 13 (2026)*

Table 5: Johansen Cointegration Test Results

Hypothesis	Eigenvalue	Trace Statistic	CV (5%)	Prob.	Decision
Trace Test					
None *	0.5635	81.4099	69.8189	0.0045	Reject H_0
At most 1	0.3661	46.5905	47.8561	0.0654	Do not reject
At most 2	0.2737	27.4435	29.7971	0.0912	Do not reject
Max. Eigenvalue Test					
None *	0.5635	34.8194	33.8769	0.0385	Reject H_0
At most 1	0.3661	19.1469	27.5843	0.4032	Do not reject

** Rejection at 5% level. Source: EViews 13 (2026)*

Lag 2 is selected by AIC and the LR test. Both Trace (81.41 > 69.82, p = 0.0045) and Maximum Eigenvalue (34.82 > 33.88, p = 0.0385) statistics confirm exactly one cointegrating relationship at the 5% level, validating the VECM and confirming that the variables share a stable long-run equilibrium consistent with the OLI and Absorptive Capacity frameworks.

4.3 VECM Estimation Results

Table 6: VECM Long-Run and Short-Run Results

Variable	Coefficient	Std. Error	t-Statistic	Remark
PANEL A — Long-Run Cointegrating Equation (Dependent: PDS)				
FDI(-1)	-0.7427	0.14299	-5.1941	Negative; Significant
REER(-1)	1.7460	0.23770	7.3454	Positive; Significant
INT(-1)	-0.0620	0.15043	-0.4122	Not Significant
GDP(-1)	-1.1170	0.46480	-2.4033	Negative; Significant
PANEL B — Short-Run Error Correction Equation (Dependent: ΔPDS)				
CointEq1 (ECT)	-0.1344	0.03487	-3.8549	Negative; Significant
D(FDI(-1))	0.0121	0.08648	0.1396	Not Significant
D(FDI(-2))	0.0713	0.07404	0.9637	Not Significant
D(REER(-1))	-0.1596	0.15733	-1.0142	Not Significant
D(REER(-2))	-0.0903	0.16502	-0.5470	Not Significant
D(INT(-1))	0.0739	0.31254	0.2364	Not Significant
D(INT(-2))	0.6925	0.32516	2.1299	Positive; Significant
D(GDP(-1))	0.3904	0.13045	2.9931	Positive; Significant
D(GDP(-2))	0.0713	0.16105	0.4426	Not Significant
R-squared	0.7456			Adj. $R^2 = 0.6112$

Note: |t| > 2 denotes significance at the 5% level. Source: EViews 13 (2026)

4.3.1 FDI and Public Debt

The long-run FDI coefficient is negative and highly significant ($\beta = -0.7427$, $t = -5.194$), indicating that a one percentage point increase in FDI as a share of GDP reduces public debt by approximately 0.74 percentage points. This is consistent with both frameworks: productive FDI generates employment, tax revenues, and technological spillovers that ease fiscal pressure. However, with FDI averaging only 1.2% of GDP and concentrated in oil enclaves, the absolute fiscal benefit was insufficient to offset deficit-driven borrowing, particularly as exchange rate depreciation simultaneously amplified external debt costs. In the short run, FDI coefficients are positive but insignificant consistent with the Absorptive Capacity argument that fiscal benefits materialize through long-run structural channels.

4.3.2 Exchange Rate and Public Debt

The REER coefficient is the largest in the model (β = 1.746, t = 7.345), identifying exchange rate depreciation as the dominant long-run fiscal risk. As the naira depreciates, the domestic cost of foreign-denominated obligations rises proportionally: the 2023 floatation inflated the naira value of a USD 1 billion loan from ₦200 billion to ₦1.5 trillion. This corroborates Favaretto (2023), Odoom et al. (2025), and Rafie and Lekhal (2025). Short-run REER coefficients are negative but insignificant, confirming that exchange rate fiscal impacts are predominantly long-run phenomena absorbed into annual budget frameworks.

4.3.3 Interest Rate and Public Debt

The long-run interest rate coefficient is insignificant (β = −0.062, t = −0.412), reflecting that once exchange rate and GDP are controlled for, the CBN MPR does not independently drive long-run debt dynamics. This reflects Nigeria's predominantly foreign-denominated debt portfolio, whose servicing cost is driven by exchange rate movements rather than domestic rates. However, the second lag in the short-run equation is positive and significant (β = 0.693, t = 2.130), confirming that monetary tightening increases debt with a two-year lag through elevated domestic servicing costs.

4.3.4 GDP Growth and Public Debt

GDP growth exerts the strongest long-run debt-reducing effect (β = −1.117, t = −2.403), exceeding FDI's coefficient in magnitude. A one percentage point increase in GDP growth reduces public debt by approximately 1.12 percentage points, highlighting that broad-based growth is a more powerful fiscal lever than FDI attraction alone. A positive short-run coefficient (β = 0.390, t = 2.993) reflects the transitional dynamic of growth upswings, where government expenditure rises ahead of revenue gains. The ECT (−0.1344, t = −3.855) confirms 13.4% annual equilibrium correction, with the model achieving $R^2 = 0.746$.

4.4 Post-Estimation Diagnostics

Table 7: Post-Estimation Diagnostic Test Results

Test	Statistic	p-value	Conclusion
Normality — Jarque-Bera (Joint)	15.8094	0.1052	Residuals normally distributed
Serial Correlation LM — Lag 1 (Rao F)	0.3912	0.9955	No serial correlation
Serial Correlation LM — Lag 2 (Rao F)	0.7917	0.7432	No serial correlation
Heteroskedasticity — Chi-square (Joint)	188.5898	0.3154	Homoskedastic residuals

Source: Researcher's computation using EViews 13 (2026)

All diagnostic tests confirm the statistical integrity of the VECM. The Jarque-Bera joint probability (0.1052) confirms residual normality. Breusch-Godfrey LM test probabilities of 0.9955 and 0.7432 at lags 1 and 2 confirm no serial correlation. The Breusch-Pagan-Godfrey probability (0.3154) confirms homoskedastic residuals. These results validate all coefficient estimates for policy inference.

4.5 Test of Hypotheses

H01 — REJECTED. FDI's long-run coefficient ($\beta = -0.7427$, $t = -5.194$) is negative and significant ($|t| > 2$), confirming that FDI significantly reduces Nigeria's public debt in the long run.

H02 — REJECTED. The REER coefficient ($\beta = 1.746$, $t = 7.345$), the largest in the model ($|t| > 2$), confirms that exchange rate depreciation is a dominant driver of debt accumulation.

H03 — CANNOT BE REJECTED in the long run ($t = -0.412$). REJECTED in the short run, where the second lag ($\beta = 0.693$, $t = 2.130$) is significant, confirming short-run monetary–fiscal transmission with a two-year lag.

H04 — REJECTED. GDP growth significantly reduces long-run debt ($\beta = -1.117$, $t = -2.403$) and temporarily elevates it in the short run ($\beta = 0.390$, $t = 2.993$), reflecting transitional fiscal dynamics

5. SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

This study examined the impact of FDI on Nigeria's public debt from 1981 to 2024 using VECM, anchored on the OLI Framework and Absorptive Capacity Framework. All variables were confirmed I(1). Johansen tests confirmed one cointegrating relationship. Lag 2 was selected by AIC. The model achieved $R^2 = 0.746$ and passed all diagnostic tests. All four null hypotheses were tested using the $|t| > 2$ rule.

5.2 Conclusion

FDI significantly reduces Nigeria's public debt in the long run ($\beta = -0.7427$), validating the OLI Framework's fiscal prediction. However, the Absorptive Capacity Framework explains why actual debt has continued to rise: FDI volumes were too small, too enclave-concentrated, and undermined by an institutional environment too constrained to generate broad-based fiscal improvement. Exchange rate depreciation ($\beta = 1.746$) is the dominant long-run fiscal risk, reflecting structural vulnerability from a predominantly foreign-denominated debt portfolio. GDP growth ($\beta = -1.117$) is the most powerful debt stabilizer exceeding FDI in magnitude establishing that accelerating broad-based growth is the most effective fiscal lever available. Interest rates carry primarily short-run implications. Effective debt management in Nigeria therefore requires attracting more diversified FDI while simultaneously building the absorptive capacity that allows foreign capital to generate the growth and revenue diversification that materially reduces fiscal pressure.

5.3 Policy Recommendations

Based on the empirical findings, the following recommendations are advanced:

i. FDI attraction policies should be restructured to diversify investment beyond the oil enclave into manufacturing, agro-processing, technology, and services. The government should

improve the ease of doing business, enforce contract rights reliably, and develop industrial zones generating stronger backward linkages, employment, and tax base expansion.

ii. Exchange rate stability should be treated as a fiscal priority. The Federal Government and CBN should coordinate to maintain adequate foreign reserves, develop transparent foreign exchange markets, reduce the foreign currency composition of new borrowing, and pursue structural export diversification beyond oil as the foundation for durable naira stability.

iii. GDP growth must be prioritized through scaled investment in infrastructure, education, and health; non-oil revenue expansion through tax reform; and support for small and medium enterprises. Building absorptive capacity human capital, financial market depth, and institutional quality will simultaneously enhance FDI quality and fiscal impact.

iv. Fiscal and monetary authorities should formalize a medium-term coordination framework to prevent compounding debt pressures particularly avoiding situations where monetary tightening cycles accelerate short-run debt accumulation simultaneously with exchange rate-driven external debt inflation.

5.4 Contribution to Knowledge

This study makes four contributions. First, it provides the most current VECM analysis (1981–2024) of the FDI–public debt nexus in Nigeria, covering COVID-19 and the 2023 naira floatation. Second, it combines the OLI and Absorptive Capacity frameworks as an integrated lens, resolving the paradox that FDI's statistical debt-reducing effect coexists with a rising actual debt trajectory. Third, a joint VECM system captures dynamic interactions invisible to bilateral models. Fourth, the finding that GDP growth (−1.117) carries a larger debt-reducing coefficient than FDI (−0.7427) redirects policy attention to absorptive capacity building as the pathway through which FDI's fiscal potential is realized.

5.5 Suggestions for Further Research

Future studies may use quarterly data for finer short-run dynamics; disaggregate FDI by sector; incorporate institutional quality and political risk indices; or apply nonlinear cointegration methods to test whether the FDI–debt relationship has changed structurally across macroeconomic regimes. Comparative panel studies across oil-exporting African economies would further contextualize these findings.

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