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Determinants of Investment in Nigeria

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ABSTRACT
This study investigated the determinants of investment in Nigeria using time series data between 1981 and 2018. The study employed an expost facto research design and an econometric methodology using the Autoregressive distributed lag estimation technique to estimate a multiple regression equation. The study modelled gross domestic investment as a function of gross domestic product per capita, real interest rate, inflation rate, depth of financial development and real exchange rate. Findings from the Bounds test of the ARDL result indicate presence of long run relationship between gross domestic investment and its potential determinants. This led to the estimation of the Auto regressive distributed lag cointegrating and long run relationship. Specifically, the long run estimate shows evidence of a positive and statistically relationship between gross domestic product per capita and investment, a negative and statistically significant relationship between real interest rate and investment, a negative and statistically significant relationship between inflation rate and investment and a negative and statistically significant relationship between real exchange rate and investment in Nigeria. Based on these findings above, the study concluded that income, interest rate, inflation rate and exchange rate are viable factors affecting gross domestic investment in Nigeria and recommended among others that the focus of development policy in Nigeria should be aimed at reducing the cost of living in order to enhance to enhance domestic investment.
Keywords: Investment, inflation, determinants gross domestic product, interest rate

INTRODUCTION

Investment is the commitment of resources made with the hope of realizing benefits which are expected to occur over a reasonably long period of time. It is an economic activity where an individual, group or government buys assets with the hope of receiving adequate risk premium (returns) overtime. According to [1] investment is the change in capital stock during a period. Consequently, unlike capital, investment is a flow and not a stock term. This means that capital is measured at a point in time, while investment can only be measured over a period of time. Investment is a net tangible property of human being and of institutional arrangement capable of rendering services to consumers and producers of a nation [2]. This implies the profitable postponement of consumption to the future. Such greater consumption expectation is only attained if the resources committed yield benefits as per the opportunity cost of the capital. It could also mean the production of capital goods: goods which are not consumed but instead used in future production.

Investment plays important role in functioning of an economy whether developed or underdeveloped. Economic growth of most economies is derived from investment in such economy. No wonder investment is seeing as a propellant of economic growth. To this end, measures are taken by government of various countries of which Nigeria is not an exception to encourage investment so as to boost high productivity, innovation, employment level, standard of living, reduce poverty level and ultimately accelerate economic growth [3]. Investment in various sectors of the

economy stimulate aggregate employment output, demand income which also increase the government revenue for the provision of basic industrial and agricultural inputs towards the growth and development of any economy. This entails that investment multiplier increase national income which in turn increases savings for investment, consumption and aggregate demand level. The effect will be the rising standard of living of the citizenry.

Nigeria has been classified as low savings and even lowers investment economy [4] one of the principal objectives of the Nigerian government under the 1999 democratic dispensation is fostering of sustained economic growth. Over the years the government has been in the driver's seat in growth the economy. But lessons of experience have show that government cannot regulate the economy effectively. A typical example has been the shift under the National Economic Empowerment and Development Strategy (NEEDS) which has recommended the need to restructure and deepen the financial system. Some economists like [5] said that rising investment alone is not sufficient enough to bring about growth and the role of financial institutions is very vital. In particular, the view expresses that the role of capital fund is very critical to the success of any endeavour [6]. In this regard, it is therefore important to investigate the determinants of investment in economy in the past three decades. Growth of economies is derived from investment is such economy. A key role is assigned to investment as a propellant of economic growth. Investment in various sectors of the economy stimulate aggregate employment, output, demand income which also increase the government revenue for further provision of basic industrial and agricultural further provision of basic industrial and agricultural inputs for the growth and development of an economy. This entails that the investment multiplier increases national income which increases savings for investment, consumption and aggregate demand level. The effect will be the rising standard of living of the masses which is the major determent of growth and development in an economy. Banking sub sector in Nigeria has remained foreign in rural areas. But recently the establishment of community banks (now micro finance banks) has been to deepen their operation in rural areas. These banks with government assistance give loans and mobilize savings from rural areas for further investment in Nigeria. In addition, government have tried to provide necessary infrastructures in rural areas to help reduce the rate of rural-urban migration for the purpose of compelling the rural population to take agriculture to greater height as it was in past 48 years. However, the diversification of the various sectors of the economy has been the main objective of the government. This is to increase employment which will increase income and savings for investment. But the process so far has not been adequate because of political instability and policy inconsistency which range from corruption of political administrators and negative effect of transitional government. Diversification of different key sectors of the economy like agriculture and industry increases employment, incomes, consumption, savings, demand and generally, aggregate investment level that will broaden and deepen the society's standard of living. But the dismissal growth record in most African countries relative to other regions of the world has been of concern of economists [7].

Statement of the Problem

Investment is the mainstream of economic development of any nation. [8] observed that Nigeria has been classified as low savings and even lower investment economy. It is based on this fact that one of the principal objectives of the Nigeria government is fostering sustained economic growth through the promotion of enabling investment environment. Stimulation of sustained economic growth requires a balance between investment and such factors that affect investment.

The unsteady behaviour of investment in Nigeria has become a source of worry to all who are concerned about the growth of the country. The low level of investment

has appeared to be the major problem facing the economy. Despite policies made by the government of Nigeria at different times to tackle the problem, the menace still persists. According to [9], successive governments have implemented policies and strategies to raise the level of investment but these policies so far have been erratic. It has however, been found that a major problem is that government is so much concerned about policies to boost investment without much knowledge or investigations of the determinants of investment [10].

Decisions whether to invest or not are determined and/or constrained by numerous factors. These factors must be identified and importance of identified variables as policy instruments lies in the fact that they can be used judiciously to foster investments. An analysis of investment requires a simultaneous link to those factors and other unique variables that equally react to fluctuations. Attempts to analyze investment determinants and predict its behaviour in the Nigerian economy have achieved a disproportionate share of analysts' attention.

Decisions taken in respect of investment, whether rightly or wrongly have a lasting effect on the growth and development of an economy. To avoid the danger of faulty investment or investment decisions, it is necessary to examine or investigate very carefully those factors or macroeconomic variables that determine investments in the Nigerian economy, with a view to knowing their impact.

METHODOLOGY

This study is anchored on the life cycle theory as proponded by [11] in line with [12] who specified private domestic investment as a function of gross domestic product, real interest rate, broad money supply and inflation rate. This study appropriately modifies the above model by giving consideration to inflation rate as a variable whose impact on investment occurs through its role in determining real returns to investment (the real interest rate). This postulation is based on the implicit assumptions of inflation neutrality (the absence of money illusion) in investment behaviour and the absence of the real balance effect of inflation. In the new model however, broad money supply was replaced with degree of financial depth proxied by the ratio of broad money supply to GDP.

Accordingly, the model is represented symbolically in as shown below:

GDI = F (GDPPC, RINT, INFR, DFD, RER) 1

Where: GDI = Gross domestic investment; GDPPC = Gross domestic product per capita; RINT = real interest rate; INFR= Inflation rate; DFD = degree of financial depth; RER= Real exchange rate.

e model is presented symbolically as follows:

$GDI = \beta_o + \beta 1\ GDPPC + \beta_2 RINT + \beta_3 INFR + \beta_4 DFD + \beta_5 RER$ 2

The model is econometrically represented as follows:

$GDI = \beta_0 + \beta_1\ GDPPC + \beta_2\ RINT + \beta_3 INFR + \beta_4 DFD + \beta_5\ RER + U_t$ .3

Where:

B_0= constant term / parameter intercept; $\beta_1 - \beta_5$= regression coefficients; U_t = error term

Apriori expectation

$\beta_1 = \beta_2 = \beta_4 = \beta_{45} > 0$

$B_3 < 0$

Presentation and analysis of result

Having specified the model, the researcher moved on with the task of collecting relevant data which were sourced mainly from the Central Bank of Nigeria (CBN) statistical bulletin and was consequently used to confront the specified model. Accordingly, E-view 9.0 econometric package was used to analyse the data so collected of which their results and analysis are contained in this chapter [13].

Table 1: Augmented Dickey-Fuller (ADF) unit root test result at level and first differences (trend and intercept)

Series	ADF t-stat (level)	5% critical values	ADF t- stat (1st diff)	5% critical values	Order of integration
LGDI	-3.686187	-3.540328	-	-	1(0)
LGDPPC	-0.158950	-3.536601	-4.377319	-3.540328	1(1)
RINT	-7.396865	-3.536601	-	-	1(0)
INFR	-3.962299	-3.540328	-	-	1(0)
DFD	-2.372929	-3.536601	-5.561112	-3.540328	1(1)
RER	**-1.991052**	**-3.536601**	**-4.151642**	**-3.540328**	1(1)

Source: Researcher's Compilation from unit root test performed using E-view (version 9.0)

Table 2: Phillips-Perron (PP) Unit root test result at level and first differences (Trend and Intercept)

Series	PP t-stat (level)	5% critical values	PP t- stat (1st diff)	5%critical values	Order of integration
LGDI	-3.677277	-3.540328	-	-	1(0)
LGDPPC	-0.994425	-3.536601	-4.207354	-3.540328	1(1)
RINT	-7.090647	-3.536601	-	-	1(0)
INFR	-2.824796	-3.536601	-10.34084	-3.540328	1(1)
DFD	-2.554482	-3.536601	-6.091257	-3.540328	1(1)
RER	**-1.986712**	**-3.536601**	**-4.940798**	**-3.540328**	1(1)

Source: Researcher's Compilation from unit root test performed using E-view (version 9.0)

Table 1 above reports that using Augmented Dickey-Fuller (ADF) technique, only gross domestic investment (LGDI), real interest rate (RINT) and inflation rate (INFR) were stationary at level since their Augmented Dickey-Fuller (ADF) test statistics were greater than their critical values in absolute term while other variables were non stationary since their Augmented Dickey-Fuller (ADF) test statistics were less than their critical values in absolute value. Similarly, table 2 reports that using Phillips Perron (PP) technique, only gross domestic investment (LGDI) and real interest rate (RINT) were stationary at level while other variables were non stationary [14]. This led to the differencing of the non-stationary data to induce their stationarity; hence, the non-stationary variables became stationary after first difference and are therefore integrated of order one, I (1). This indicates that all the variables are free from unit root problems and hence there is no ground to suspect that the estimated results are spurious. However, given that the variables do not possess the same order of integration, as some are integrated of order zero while others are integrated of order one, the technique of Auto regressive distributed lag (ARDL) will be used to estimate both the short and long run relationship that exists among the specified variables.

Auto regressive distributed lag estimates result

The ARDL standard regression is presented in table 3 below:

Table 3 ARDL result

Dependent Variable: LGDI				
Variable	Coefficient	Std. Error	t-Statistic	Prob.*
LGDI(-1)	0.159903	0.165434	0.966564	0.3418
LGDPPC	0.776430	0.150184	5.169860	0.0000
RINT	-0.011539	0.004445	-2.595994	0.0147
INFR	-0.007582	0.002980	-2.544192	0.0165
DFD	-0.022126	0.011604	-1.906706	0.0665
RER	-4.57E-05	0.000464	-0.098495	0.9222
RER(-1)	-0.000955	0.000572	-1.669369	0.1058
C	16.16217	3.154251	5.123933	0.0000
R-squared	0.994598	Mean dependent var		28.37905
Adjusted R-squared	0.993295	S.D. dependent var		1.881890
F-statistic	762.8338	Durbin-Watson stat		2.137676
Prob(F-statistic)	0.000000			

Source: Researcher's Compilation from ARDL test performed using E-view (version 9.0)

From the result, the value of the coefficient of determination (R^2) is 0.994598which entails that approximately 99 percent of the change in the dependent variable (LGDI) is attributable to changes in the independent variables while the remaining 1 percent is attributable to the influence of other variables not included in the regression model. This estimate above satisfies that the model has a good fit. Equally, the F-statistics value of 762.8338with a p-value of 0.00000 (less than 0.05) indicates that there is significant joint influence of the independent variables on the dependent variable [15]. Hence, all the variables included in the model jointly impact on the dependent variable significantly.

Table 4: Breusch-Godfrey serial correlation lm test
Null hypothesis: Errors are not serially correlated

F-statistic	0.270036	Prob. F(1,28)	0.6074
Obs*R-squared	0.353424	Prob. Chi-Square(1)	0.5522

Source: Researcher's Compilation from test performed using E-view (version 9.0)

From the Breusch Godfrey test above, the Observed F-statistics is 0.270036with a p-value of 0.6074. Since its P-value is greater than the chosen level of significance (0.05), we therefore cannot reject the null hypothesis. Hence, we accept the null hypothesis of no autocorrelation in the estimated result. This implies that there is absence of autocorrelation in the model.

Table 5: White heteroskedasticitytest
Null hypothesis: There is no heteroscedasticity

F-statistic	0.841848	Prob. F(7,29)	0.5622
Obs*R-squared	6.248789	Prob. Chi-Square(7)	0.5110
Scaled explained SS	4.365220	Prob. Chi-Square(7)	0.7369

Source: Researcher's Compilation from test performed using E-view (version 9.0)

From the result presented above, it can be seen that the F-statistics has a value of 0.841848 with a corresponding p-value of 0.5622. Since the P-value is greater than

0.05 (the chosen level of significance), we accept the null hypothesis and conclude that there is homoscedasticity in the model [16]. To further validate the estimated auto regressive distributed lag model against misspecification error, the Ramsey-Reset test was conducted and the result is as shown in table 6 below:

Table 6: Ramsey RESET test result
Null hypothesis: non-linear combination of fitted values does not help explain the response variable:

	Value	Df	Probability
f-statistic	0.829670	(2, 27)	0.4470
F-test summary:			
	Sum of Sq.	Df	Mean Squares
Test SSR	0.039873	2	0.019936
Restricted SSR	0.688666	29	0.023747
Unrestricted SSR	0.648793	27	0.024029

Source: Researcher's Compilation from test performed using E-view (version 9.0)

As can be seen above, the F-statistics has a value 0.829670 with a corresponding p-value of 0.4470 (greater than 0.05) Therefore, hence the null hypothesis is accepted and the acceptance rules out the possibility of a misspecification error.

Testing for long run relationship

Having validated the ARDL result against serial correlation, heteroscedasticity and model instability, a coefficient diagnostic test was carried out to determine whether there is significant long run relationship using the Bounds test presented in table 7 below:

Table 7: Bounds test estimate

Null Hypothesis: No long-run relationships exist			
Test Statistic	Value	K	
F-statistic	4.459925	5	
Critical Value Bounds			
Significance	I0 Bound	I1 Bound	
10%	2.26	3.35	
5%	2.62	3.79	
2.5%	2.96	4.18	
1%	3.41	4.68	

Source: Researcher's Compilation test performed using E-view (version 9.0)

Using the Bounds testing methodology at 5 percent level of significance, the null hypothesis of no long run relationship is rejected since the value of the F-statics statistic (4.459925) is greater than the upper critical bounds value (3.79). This implies acceptance of the alternate hypothesis thereby concluding that there is presence of long run relationship among the variables used in the model and which led to the estimation of ARDL Cointegrating and long run model and the consequent short run/Error correction model. [17] This is based on the assumption that the existence of long run relationship provides for short term fluctuations, hence, for there to be significant long run association, there should be a speed of adjustment. This is presented in table 8 below:

Table 8: ARDL cointegrating and long run form

Dependent Variable: LGDI

Cointegrating Form

Variable	Coefficient	Std. Error	t-Statistic	Prob.
D(LGDPPC)	0.776430	0.150184	5.169860	0.0000
D(RINT)	-0.011539	0.004445	-2.595994	0.0147
D(INFR)	-0.007582	0.002980	-2.544192	0.0165
D(DFD)	-0.022126	0.011604	-1.906706	0.0665
D(RER)	-0.000046	0.000464	-0.098495	0.9222
CointEq(-1)	-0.840097	0.165434	-5.078140	0.0000

Cointeq = LGDI - (0.9242*LGDPPC -0.0137*RINT -0.0090*INFR -0.0263 *DFD -0.0012*RER + 19.2385)

Long Run Coefficients

Variable	Coefficient	Std. Error	t-Statistic	Prob.
LGDPPC	0.924214	0.032460	28.472206	0.0000
RINT	-0.013736	0.006490	-2.116513	0.0430
INFR	-0.009025	0.003312	-2.725052	0.0108
DFD	-0.026338	0.013967	-1.885712	0.0694
RER	-0.001191	0.000412	-2.894925	0.0071
C	19.238450	0.330029	58.293128	0.0000

Source: Researcher's Compilation test performed using E-view (version 9.0)

As can be seen from the result presented above, the first panel consists of the short run coefficients while the second panel contains the long run coefficients of economic relationship existing among the variables employed in the research. From the long run panel, it can be seen that the coefficient of per capita GDP (LGDPPC) is positive implying that as income increases, gross domestic investment equally increases [18] [19]. Specifically, a one billion increase in income per capita brought about a 0.9 billion increase in gross domestic investment and vice versa. With a p-value of 0.0000 (less than 0.05), the estimated coefficient is statistically significant. On the contrary, real interest rate (RINT) has a negative coefficient which implies that as the rate of interest increases, gross domestic investment decreases. Specifically, a one percent increase in real interest rate led to a -0.01 percent decrease in gross domestic investment. With a p-value of 0.0430, which is equally less than 0.05, being the chosen level of significance, the coefficient estimate of real interest rate is statistically significant. Similarly, the coefficient of inflation rate (INFR) is negative with a value of -0.009025, implying that that a one percent increases in the rate of inflation led to a 0.009 percent decrease in gross domestic investment. With a p-value of 0.0108, the estimated coefficient is equally statistically significant. In the same vein, degree of financial depth (DFD) has a negative coefficient of -0.026338, an indication that a one percent increase in the degree of financial depth brought about a 0.02 percent decrease in gross domestic investment and vice versa. Its p-value of 0.0694 shows that the estimated coefficient is not statistically significant. Finally, real exchange rate (RER) has a negative coefficient of -0.001191, an indication that a one percent increase in exchange rate brought about a 0.001 percent decrease in gross domestic investment and vice versa. Its p-value of 0.0071equally ruled out the possibility of chance occurrence; hence, the estimated coefficient is statistically significant [20].

A cursory look at the short run panel equally reveals that the income per capita have a positive short run impact on gross domestic investment while other variables have short run negative impacts on gross domestic investment just as was the case in the long run estimation. Similarly, all the estimated coefficients, except that of

degree of financial depth were statistically significant.

Equally from the short run panel, the speed of adjustment coefficient represented by CointEq (-1) has a value of -0.840097and a p-value of 0.0000. The estimated coefficient is in line with the granger representative theorem which states that a negative and statistically speed of adjustment is a necessary condition for a significant long run relationship. While the negative sign satisfies the first condition, the p-value satisfies the other condition.

Testing of research hypotheses

Level of significance: 5 %

Decision criteria: Accept the null hypothesis if p-value is greater than 0.05, otherwise reject the null hypothesis.

Hypothesis one

H_0: Income has no significant impact on gross domestic investment in Nigeria.

From the result presented in table 7, LGDPPC has a coefficient of 0.924214with a p-value of 0.0000 which is less than 0.05. Therefore, there is sufficient evidence to reject the null hypothesis and accept the alternate hypothesis. Hence, there is significant impact of income on gross domestic investment in Nigeria.

Hypothesis two

H_0: Changes in interest rate has no significant impact on gross domestic investment in Nigeria.

From the result presented in table 7, RINT has a coefficient of -0.013736with a p-value of 0.0430which is less than 0.05. Therefore, the null hypothesis of no significant impact of interest rate on gross domestic investment is rejected. Hence, there is significant impact of interest rate on gross domestic investment in Nigeria.

Hypothesis three

H_0: Inflation rate has no significant impact on gross domestic investment in Nigeria.

From the result presented in table 7, INFR has a coefficient of -0.009025with a p-value of 0.0108which is less than 0.05. Therefore, the null hypothesis of no significant impact on gross domestic investment of inflation rate is rejected. Hence, we accept the alternate hypothesis and conclude that inflation has significant impact on gross domestic investment in Nigeria.

Hypothesis four

H_0: There is no significant impact of real exchange rate on gross domestic investment in Nigeria.

From the result presented in table 7, RER has a coefficient of -0.001191with a p-value of 0.0071which is less than 0.05. Therefore, the null hypothesis of no significant impact on gross domestic investment of exchange rate is rejected. Hence, we accept the alternate hypothesis and conclude that exchange rate has significant impact on gross domestic investment in Nigeria.

Implications of findings

Findings from the regression result show that the estimate of gross domestic product per capita is positive and statistically significant. This conform to a priori expectation under the study period, which requires a positive and statistically significant impact of income on investment, hence, as the incomes of private agents grow faster, their saving rate increases and consequently investment. Given the historical close link between saving and investment rate, a rise in growth rate will lead to a virtuous cycle of higher income and saving rates. Thus the Nigerian experience provides support for the argument that, for countries in the initial stages of development, the level of income is an important determinant of the capacity to save and invest. The result for real interest rate (RINT) shows that the real rate of return on bank deposits has a statistically significant negative effect on investment behaviour in Nigeria.

This finding is not consistent with the McKinnon-Shaw proposition which states that, in an economy where the saving behaviour is highly intensive in money and near-money assets, the direct incentive effect of high real interest rates on saving and investment behaviour (i.e. the income effect) generally overwhelms the substitution of other assets for financial assets in response when faced with such interest rate changes (i.e. the substitution effect). The observed negative coefficient may not be unconnected with the reality that within

the period under study, Nigeria witnessed several years of negative real interest rate which is capable of stampeding savings mobilization rate. From the estimated result, it was observed that inflation rate has inverse and significant impact on gross domestic investment in Nigeria.

CONCLUSION

This is in conformity to apriori expectation because once there is inflation in the economy, money will lose its purchasing value and the quality of it as a store of value will be reduced. This further entails that as money continues to lose value in the economy, consumers tends to increase their allocations to consumptions thereby reducing savings in line with the Keynesian theory. Finally, the estimated result shows evidence of a negative and statistically significant impact of real exchange rate on gross domestic investment in Nigeria. This implies that exchange rate depreciation, which occurs when an increased amount of the naira is required to exchange for a fixed amount of other countries' currencies, reduces domestic investment in Nigeria.

Following the model specification, estimation and analysis in work following information surfaced:

1. The study found that gross domestic product per capita has a positive and statistically significant impact on gross domestic investment in Nigeria. Meaning that gross domestic product per capita has no significant impact on gross domestic investment in Nigeria.
2. The study equally found that real interest rate has a negative and significant impact on gross domestic investment in Nigeria. This is an offshoot from the rejection of the null hypothesis that real interest rate has no significant impact on gross domestic investment in Nigeria.
3. The result equally showed that inflation rate has a negative and statistically significant impact on gross domestic investment in Nigeria.
4. Finally, the result from the Autoregressive distributed lag long run estimate equally showed that real exchange rate has a negative and statistically significant impact on gross domestic investment in Nigeria.

Policy recommendations

Based on these findings from this study and in line with recommendations of other authors whose results corroborate the result of this research, the following recommendations are drawn:

1. Given the estimated positive impact of gross domestic product per capita on gross domestic investment in Nigeria, the focus of development policy in Nigeria should be aimed at reducing the cost of living in order to enhance to enhance domestic investment. This should be complemented with an increase the productive base of the economy in order to promote real income growth and reduce unemployment.
2. On the basis of the estimated negative impact of real interest rate on investment, it is recommended that government constantly reviews real interest rate against inflation rate in order to ensure that real interest rates do not fall beyond zero.
3. Since inflation was found to exert a negative and significant influence on investment in Nigeria, restrictive monetary and fiscal policies should be maintained in order to fight highly pervasive and persistent increase in the general price level in the Nigeria economy.
4. On the established negative coefficient of real exchange rate, it is recommended that attempts must be made to achieve and maintain macroeconomic stability. This should involve efforts to stabilize the exchange rate so as to encourage the competitiveness of Nigeria exports, which increase the volume of foreign currency inflows.

The study began with a conduct of unit root test using Augmented Dickey-Fuller (ADF) and Phillips - Perron techniques to determine the stationarity properties of the data employed and the result showed evidence of mixed stationarity with some variables being stationary at level while others are stationary at first difference. Following the different orders of integration observed from the unit root test, an Autoregressive Distributed Lag (ARDL) approach was undertaken to analyze the long-run relationships and short run dynamic interactions among the variables included in the model. Findings from the Bounds test of the ARDL result indicate presence of long run relationship between the variables. Specifically, the long run estimate shows that there exists a positive relationship between gross domestic product per capita and investment, a negative relationship between real interest rate and investment, a negative relationship between inflation rate and investment and a negative relationship between real exchange rate and investment in Nigeria. Based on these findings above, it can be seen that income, interest rate, inflation rate and exchange rate are viable factors affecting gross domestic investment in Nigeria.

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