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IMPACT OF EXCHANGE RATE VOLATILITY ON DOMESTIC INVESTMENT IN NIGERIA

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ABSTRACT

The paper focuses on investment as the engine of economic growth of a nation particularly in Nigeria, where the goal is to become one of the most developed economy of the world in the year 2030, the focus of the paper to examine the determinant of private domestic investment is well placed. The objective of the paper therefore is to allow the policy makers identify factor and the opportunity of taking such decisions that will promote private investment in Nigeria like that of the other economies.

The paper revealed in the conclusion that nominal exchange rate, macroeconomic instability, infrastructure and savings rate are significant variables that determine the level of domestic investment in Nigeria. The result shows that infrastructure is negatively signed contrary to expectation.

Data were obtained from Central Bank of Nigeria Statistical Bulletin of various issues covering the period between 1997-2024.The paper adopt the techniques of Ordinary Least Square Method (OLS) to analysis the data. The result shows that the variables for the regression equation were appropriately captures as the overall goodness of fit is significant at 5% indicating the appropriateness of regressands.

INTRODUCTION

Nigeria operate system of mixed economy whereby Government and private institutions control the means of production simultaneously in the economy.

However, until recently, the economy is dominated by government investment. The aftermath of which are prevalence of corruption, inefficiency administrative Bottlenecks, Nepotism, religious crisis, Boko Haram, Niger Delta crisis, kidnapping and the rest all because everybody wants to share the national cake that is not there.

The focus of this paper therefore is on private domestic investment in order to capture the implications of policy shift from government to private sector as engine of growth.
Investment constitutes a major factor in the economic development process of any nation. However, in Nigeria and in most developing nation of the world investment is largely embark upon by the government. For instance in Nigeria, Government stock dominated the stock exchange market up to 68%.
Therefore, with the emergence of government transformation agenda such as NEEDS, PPP the attention is now shifted from public domestic investment to private domestic investment.

To fall in line with the global trend, and if Nigeria must remain a force to be reckon with in 2030as one of the 20 most developed economies of the world, there is need for government to rigorously pursue its investment drive by providing enabling environment for private sector to thrive.
Equally infrastructural facilities must be put in place to encourage private investment or public/private partnership to drive towards a virile economy especially by year 2030.
Following this trend, the economy in recent times witnessed massive privatization and commercialization of Nigerian public enterprises.
This step is believed to be capable of wiping out corruption and act as engine of growth given the efficiency,
Bakare (2024) define investment as current resources that are allocated for some future use. There is usually a trade-off between consumption and investment. An increase in investment enables higher future but smaller present consumption while a smaller investment allows higher present consumption at the expense of small future consumption (Beare 2020).

PROBLEMS OF THE STUDY

The total collapsed of investment in Nigeria is a major concern of this paper. Therefore the question arises as to what can be responsible for divestment in Nigeria. There is mass exodus of private company from Nigeria to neighboring countries such as Ghana and South Africa. The research will therefore be centered on investigating the cause of this problem as well as finding out measures adopted so far in reversing this trend.

OBJECTIVE OFTHE STUDY

The general objective of the study is to investigate the attitude and performance of private domestic investment in Nigeria in recent times and identify the contributing factors underpinning abysmal performance of the sector in the economy.

The specific objective therefore is to;

i. Examine the trend and pattern of the behavior of private domestic firms in Nigeria

ii. Identify the contributing factors to poor performance of private domestic investment in Nigeria.

iii. Identify the influence and control of governments over the actualizing of private domestic investment.

HYPOTHESIS OF THE STUDY

In order to achieve the aim and objectives of this study, it is of primate importance to formulate hypothesis that will helpful for empirical investigation. Therefore, the following hypothesis is proposed.

HO: Exchange rates, inflation rate, infrastructure and saving rates do not determine domestic investments in Nigeria.

Hi: Exchange rates, inflation rate, infrastructure and savings rate do determine domestic investment.

CONCEPTUAL AND EMPIRICAL FRAMEWORK

This section attempts to discuss the conceptual and empirical framework on which to analyse the determinant of domestic investment in Nigeria.

The evolution and the growth of domestic investment in Nigeria over the years has been sluggish and stunted. Globerman and Shapiro (2024) observed that growth in domestic investment was positive through unstable. For instance growth rate was about 41% between 1970 and 1977, and as high as 118% in 1978.

This distortion in the growth rate may be attributed to volatile and political environment of the country.

Another factor that affects domestic investment is the cost of capital. According to Duncan (2021) investment is on decline in Nigeria. The issues of theoretical framework underpinnings the domestic private investment comes from Keysian theory, then cash flow model and the Neo-classical model. These have been used in modeling investment behavior.

Oshikoya (2022) using panel data establishes a significant positive relationship between investment and the various indicators of financial development and macroeconomic variables.

Similarly, Tobin Q theory act the Neo-classical theory of investment has been found applicable in determining the level of private investment in Nigeria.

EMPIRICAL REVIEW

There exits an array of investment models ranging from Neo-classical to Keysians, and Tobin Q Models.

These models differ on the basis of underlying assumptions, focus is majorly on macroeconomic and financial indicators without consideration to government and institutions (Oshikoya 2022).

Adopting the variation in real exchange rate as an explanatory variable in regression analysis. Jayaraman (2023) observed a statistically significant negative relationship between the variables in the real exchange rate and private investment.

DETERMINANT OF PRIVATE DOMESTIC INVESTMENT

Factor abounds in literature that determines investment.

Commenting extensively on this determining factors are among other, Green and Villanueva 1991 Semen and Solimano 1993 and Skull 2022.

Their findings centers on the fact that private investment behavior is essentially motivated by profit, including such factors as wage rate, real exchange rate, policies and raw material costs, rate of inflation and appropriate pricing of capital labour and land.

Debate in the development literature as to whether public sector complements or competes with private sector investment is in conclusive. Iyoha (2024) argues that if public sector and private sector investments are complementary then an increase in public sector investment will trigger an increase in private sector investment, thus increasing growth and accelerating economic growth. The fact that public investment and domestic private investment are complementary has been confirmed by Greene and Villanheva (2022).

It therefore follows that the significant reductions in public investment that were associated with the structural Adjustment Programme (SAP) in Nigeria played on major role in the collapse of private investment in the mid-1980 and beyond.

METHODOLOGY AND E2010MPIRICAL ANALYSIS

Data used in this study are obtained from Central Bank of Nigeria's Statistical Bulletin and the various issues of the Annual Reports and Statement of Account from 1997-2024, while the data were subjected to empirical estimation using Ordinary Least Square (OLS) and SPSS Statistical Package to run thrase regression. The long linear equation of the regression is obtained for investments.

Investment is proxied by gross capital formation, macroeconomic instability of inflation and infrastructure by power supply, while other variables in the equation include Exchange Rate and Saving Rate. The result of the regression test carried out on the data is presented below.

SUMMARY OF THE REGRESSION RESULTS

The regression equation for the determinant of private domestic investment is presented as follows;

Inv= 31.15+ 0.92 In EXR + 0.23In INF

5.6 11 0.12

(5.6) 8.2 (2.9)

+2.4 In INFR + 1.15 + 1.15 In SAVR + Ut

0.68 0.24

(-3. 54) (4.76)

$R^2 = 0.961650$

R^2

$= 0.954346$

SEE=0.38

F-Statistics=131.64

DW=1.469

The above equation represents the equality for the determinant of domestic private investees in Nigeria.

The standard error of cach coefficient given immediately under the coefficient while that value is reported in parenthesis under each standard error.

DISCUSSION OF RESULTS

The OLS regression estimation of the equation indicates that the coefficient of determination (R') of 0.962 captured over 96% of variation in the equation of the determinant of domestic private investment.

By inspection,the nominal exchange rate is significant since the standard error (0.1122717)is less than half of its coefficient (0.4612345)infrastructure and savings rate are stastically significant to the equation because their standard errors are significant for t-test the null hypothesis is rejected since the null hypothesis is rejected since T-call at 5.57278,8.216412,2.8936, 3.5394 and 4.759438 are greater than T-tab(2.08).

The F-cal that measures the overall goodness of fit is significant at 5% level since f-cal (131.65) Z F-tab (2.84) which implies that the equation is properly fitted.

The D.W. Statistics of 1.5 connotes absence of autocorrection.

CONCLUSION AND RECOMMENDATION

The paper has provided a useful survey of the empirical determinants of private domestic investment in Nigeria. The paper show that nominal exchange rate, macroeconomic instability infrastructure and savings rate are significant variables that determine the level of domestic investment in Nigeria. The result shows that infrastructure is negatively signed contrary to expectation.

Government is therefore advice to embark on aggressive provision for infrastructural development of the country to boost investment in the country. Similarly, Government should encourage and motivate saving attitudes amongst the citizens through heavy advertisement and sensitization by National Orientation Agency (NDA) Government should equally adopt an expansionary policy that raises real income and stimulate investments. Public investment which is complementary to private investment should be encouraged.

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