Interest rate and investment decisions: The Nigerian scenario

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Abstract

Interest rate policy is perhaps one of the most controversial policies in Nigeria and has drawn the attention of several scholars, thus, its contribution to the investment base of the economy remains unclear. This paper therefore, examined the impact of interest rate on investment in Nigeria between the period 1981 and 2015. Secondary data were collected from the Central Bank of Nigeria Statistical Bulletin 2016. The study estimated the Johansen Multivariate Co-integration model and Error Correction Model (ECM) to analyse the data. Results of the co-integration test shows the existence of a long-run relationship between the proxies for interest rate (MLR, MPR, SAVR) and investment proxied by Gross fixed Capital formation (GFCFG). The ECM result revealed that MLR and MPR have negative and statistically significant impact on investment in Nigeria. While SAVR has a positive impact on investment but its impact is not also statistically significant. The ECM also indicates that 40% disequilibrium that occurred in the previous year would be corrected in the current period. This paper concludes that high interest rate inhibits investment, thus, it is recommended amongst others, that monetary policy rate and lending rate be reduced to a single digit to make it attractive for investors to access funds. This would translate to economic growth in the country.