DETERMINANTS OF DOMESTIC INVESTMENT IN NIGERIA (1986-2022)

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Abstract

This research focused on investigating the factors that determine domestic investment in Nigeria between 1986 and 2022. The primary aim was to identify and analyze the macroeconomic variables that influence investment in Nigeria, in order to understand their impact. The data for the study were obtained from secondary sources, and the ordinary least square statistical technique was used to analyze the data, and assess how these variables have affected investment in the Nigerian economy over time. The study found that government expenditure did not negatively impact domestic investors, and on the contrary, government expenditure had a significant positive relationship with domestic investment. However, interest rate, exchange rate, inflation rate, and GDP growth rate were all found to have a negative impact on domestic investment determination in the country. Although the relationship between the selected variables and domestic investment was insignificant, it was found that the macroeconomic environment played a role in determining the level of domestic investment in Nigeria, albeit to a small extent. As a recommendation, the study suggested that the government should continue to prioritize capital spending in its budgetary allocation, in order to increase the implementation of capital projects across the country, as this has a positive impact on domestic investment.

Keywords: domestic investment, government expenditure, investors

Introduction

In the 1970s, the Nigerian government implemented measures to stimulate investment, recognizing the potential dangers of relying on a singular sector. To promote economic diversification, macroeconomic policies and policy reforms were put in place to encourage domestic investment. Investing in major infrastructure projects in the early 1990s further strengthened the environment for private sector investment (CBN, 2005). A key objective of the government during this period was to establish and develop commercially viable businesses through financial programs that offered credit to the private sector, creating an avenue for capital growth (CBN, 2015). These initiatives were spearheaded by the Central Bank of Nigeria, which

aimed to support the investors in these projects with the provision of financial assistance (CBN, 2005).

Other policies following the structural adjustment programme included sectoral allocation of credit, liberalisation of interest and exchange rates, interest rate policy which was intended to ensure that private savings are increased and appropriate investment decisions are made. In addition, the government established the Nigerian Collective Investment Scheme in 2018 in recognition of the importance of investment in the creation of employment, economic diversification and poverty reduction (CBN report, 2019). As a primary government contact point for investors, its objectives included, among others; to promote the establishment of manufacturing enterprises for export and import substitution; to promote the establishment of joint ventures between local citizens and foreign investors; and to identify market outlets for locally manufactured goods and to improves domestic investments. Other measures introduced to boost domestic investment are the introduction of federal government survival fund, N'power and others. Despite recent government efforts and commitment in attracting investment, some of the schemes that were initiated to promote investment such as NEDIS have not been able to achieve the intended objectives. Similar, the SAP policy, which was introduced in 1986, also aimed at encouraging investment and employment creation in a range of economic activities, too, has not yielded any positive result with decline in investment overtime (Oshikoya, 1994).

The problem becomes that Nigeria domestic investment as well as capital accumulation has not been growing and has declined by 24% from 1998-2013 (World Bank, 2014). This is a real problem. Although, foreign direct investment has been growing steadily except with the recent economic recession in the country that led to a substantial reduction in FDI by about 28% within 2014-2016 (CBN, 2016). Nigeria macroeconomic indicators show the pitiable performance of a Domestic investment in Nigeria for the period 1986 till date (CBN, 2016). For example, domestic investment declined from 12.3% of GDP in 1991 to 8.3% of GDP in 1992, this may be partly due to the reduced public investment, which fell during the same period. Domestic investment then increased to 12.5% in 1993 and to 16% in 1994. Later, it fell continuously to 8.9% in 1996. Between 2001 and 2010, the ratio averaged 13%; it peaked at 16.2% in 2002 but fell again to 152% in 2010 (CBN, 2015).

Indeed, investment is crucial for growth and prosperity in any nation, making it a strategic factor that affects productivity. Investment in physical and financial assets, human and social capital, and natural and environmental capital is vital for sustained economic growth. However, Nigeria has been considered a low-saving and even lower investment economy, hindering its potential for growth. The Nigerian government has attempted to foster sustained economic growth through policies and strategies to raise investment levels, but the low levels of investment persist due to inadequate knowledge or investigation into investment determinants. It is essential to understand the factors that affect investment behavior in Nigeria, such as interest rates, inflation,

and government expenditure, to avoid making mistakes that could have lasting effects on the country's development. Without proper administration and poverty, even with a high-interest rate of 17.69%, Nigeria did not see an increase in private investment. Therefore, it is necessary to examine and investigate these unique variables that affect investment's behaviour to make informed decisions that benefit the nation's growth and development.

Determinants of investment in Nigeria

Determinants of Investment in Nigeria have been discussed in different literature. There are some factors of determinants of investment. They include:

a. **Interest Rate:** Investment is inversely related to interest rates which are the cost of borrowing and reward to lending. Investment is inversely related to interest rates for these main reasons:

i. Interest rates rise, the opportunity cost of investment rises. This means that a rise in interest rates increases the return on funds deposited in an interest-bearing account, or from making a loan, which reduces the attractiveness of investment relative to lending. Investment decisions may be postponed until interest rates return to lower levels.

ii. If interest rates rise, firms may anticipate that consumers will reduce their spending and the benefit of investing will be lost. Investing to expand requires that consumers at least maintain their current spending. Therefore, a predicted fall is likely to discourage firms from investing and force them to postpone their investment decisions.

b. **Inflation Rate:** Inflation rate is used as a measure of overall macroeconomic stability of a country. Inflation rate is an important determinant of Investment. Though moderate inflation is needed for business to strive profitably in a country, high and rising inflation is an indicator of macroeconomic instability and its effects on investment.

In Nigerian, the inflation rate is high. By reducing the value of money, it discourages saving and lowers the economy's saving rate which accumulates investible funds for investment. The high rate of inflation is expected to reduce the level or rate of private investment.

c. **Government Expenditure:** Government expenditure is financed by taxation and by borrowing. Government expenditure is an important component of aggregate demand in the circular flow of income/expenditure. Government expenditure is used to fiscal policy in regulating the level of spending in the economy. Government expenditure like provision of hospital, schools, good roads etc. All these are future investment for the country. It provides employment for the people thereby making them to invest their time in domestic investment.

d. **Availability of, and access to Bank Credits**

Bank credit is the most important source of investment financing among private enterprises in developing countries, Nigeria inclusive. The volume of and access to bank credit available for private sector borrowers have direct influence on private investment activity. During the controlled monetary policy period (1960-1986), up to 1982 greater percentage of credit to the economy went to private sector. The portion of total credit in the economy allocated to private

sector was 66.7% in 1980, 59.7% in 1981 and 52.1% in 1982. Afterward credit to private sector of the Nigerian economy shrunk. It reduced to 28.9% in 1986 and 34.0 in 1993. The availability of bank credit for private investment and access to available bank credit by private sector operators in Nigeria had been greatly constrained by credit to the government and high interest rate prevalence during market-based monetary policy regime (Udo, 2016).

e. Political Stability

Private investors will be attracted to a nation where there is political stability. In fact, a stable political system accompanied by consistent economic policies is not just a requirement but also a necessary condition for private investment to thrive in an economy (Obaseki & Onwioduoki, 1998). It is important to note that civil strife, political conflict and macroeconomic instability does not ensure a favourable investment environment. Investors (domestic and foreign) want a safe haven for their investment. In a country where socio-political and economic environment is highly volatile, investors may not invest and may wait until adequate incentives are provided to compensate for any risks/uncertainties associated with any commitment to long-term investment.

Empirical literature

Udo (2016) examined the determinants of private investment in Nigeria: An empirical exploration. It was observed that despite the importance of private investment as the prime mover of the economy, government interest and renewed effort in promoting it after many years. It made use of neoclassical theory and Keynes land mark which had GDP as its dependent variable and EDC as its independent variable. His findings show that, among things, from the colonial government era up to the Nigeria's first development plan 1964 there was no commitment to the promotion of private investment

Muhdin (2016) examined determinant of private investment. A systematic review. Its objective is to assess the determinants of private investment where GDP was the dependent variable and Private investment and Exchange rate as the independent variable. The findings finally recommend that countries should seriously work in creating enabling environment for private investment.

Chioma (2017) examined the interest rate and domestic private investment in Nigeria. The objectives were to determine the impact of real rate on private domestic investment. To investigate the effect of prime lending rate on private domestic investment. Multiple regression method of econometrics is the methodology been used where DPI is the dependent variable and RIR and PLR are the independent variables. The findings were that the financial institutions should be reorganized and restructured. Policies that will promote the savings culture by the citizens should ensure stability in the country to improve domestic investment in Nigeria

Bayrakfar (2007) derive a formal specification of a private investment function in sub-sahara Africa. Using the Tobin Q theory and the neo-classical theory of investment, their result

point to the significant role plays by aggregate profit ability shock by the financing of investment consisted of Public Investment rate of growth 5.8% in 1995 but experience an increase on 8.3% in 2003 and also resulted to a decline to 6.3% in 2008 the percentile slide in the ratio of private sector investment to GDP to despite the emphasis on private sector.

Hazem, Gassan and Samer (2012) looked at the economical determinants of domestic investment. Their objectives consensus relation between domestic investment and economic growth. The purpose of this writing is to investigate the long and short-run determinants of domestic investment in Jordan. Neoclassical model and accelerator investment model were the theories which were used. The major finding was to analyse the trends of the determinants of investments within the period, 1980-2010 with the focus on post-reform era efforts, both the short-run and long run movement of the investment process using the co-integration econometrics method to estimate the dynamic of the variables of the study

Sajid and Sarfraz (2008) investigated causal relationship between investment and exchange rate. This study used co-integration technique and vector error correction model to examine causality between investment and exchange rate. The result showed that there is long-run as well as short-run equilibrium relationship between them. However, the study was silent on the impact of exchange on investments

Duruchi and Ojiegbe (2013) examined the determinants of investments in the Nigerian Economy: An Empirical Approach. They examine the effect of interest rates on investments in Nigeria, determine whether government expenditure influences the level of investment. Determine whether inflation rate has significant impact on the level of investment in Nigeria. They made use of Accelerator theory. The model of specification used lies on the ordinary least square (OLS) for multiple regression analysis and they used INV as dependent variable and INF, GOVER, INT as their independent variables. It investigated the determinants as well as the direction of causality, relationship and impact between the variables and level of investment in Nigeria

Using a data from Nigeria, Khide (2004) did empirical study on external shocks, savings and investment. The econometric result indicated that growth of real income increases in public expenditure and exchange rate, openness of the economy and high savings have positive effect on investment. Rising inflation and high interest (lending) rate equally impede on the macroeconomic determinants of investment. The negative relationships attest to the major reasons why investors do not have confidence in Nigeria investment climate and such investors are scared away.

Oyedokun and Ajose(2018) investigated domestic investment and economy growth in Nigeria: An Empirical Investigation. The general objective of the study is to evaluate the link existing among domestic investment and economic growth, using the Aco-integration test model. The result found out that domestic investment cause economic growth. The government should purse the policy of export promotion thereby encouraging domestic companies to go into more production.

Niyi and Ismaila (2017) study the impact of foreign direct investment on economic growth in Nigeria. Objective of the study shows that foreign direct investment serves a major catalyst

for economic growth in a country as it solves the problems of shortage of financial resources and skills. Neoclassical theory was used. Analytical tool of the ordinary least square simple regression analysis was the model been used where its dependent variable was GDP and its independent variable was FDI. This study has investigated the effect of foreign direct investment on foreign growth in Nigeria.

George and Ogueze (2015) study investment finance and economic growth: The Nigeria Experience. It is objective was the impact of finance on investment and the impact of investment on economic growth of Nigeria economy. This study employed the ECM (Error Correction Mechanism) where ARDL Technique theory was been used and its dependent variable was TDI and it is independent variable were PSC, SAVS, INFL, OPN and EXRT. This study investigated the impact of finance on investment and the impact of investment on economic growth of Nigeria economy

Theoretical framework
Neo-classical theory of investment

The theory is called neo-classical theory of investment behaviour because it is based on the neo-classical theory of optimal capital accumulation which is determined by relative prices of factors of production. Dale W. Jorgenson 1970 contributed to the development and understanding of the neo-classical investment theory. Jorgenson's investment model bases on the idea that there exists an optimal capital stock. Economic factors, such as firms, invest and disinvest in order to reach the optimal capital stock.

It is the theory of business fixed investment sees the rate of investment being determined by the speed with which firms adjust their capital stock towards the desired level of the desire capital stock is bigger, the larger the expected output the firm or user cost of capital.

Keynesian investment theory

In this theory, the Keynes proposed an investment function with a simplistic relationship between investment and interest rates. It assumed that firms rank investments based on their rate of return and choose projects whose returns exceed the interest rate. The acceleration principle suggests that an increase in a firm's output requires a proportional increase in its capital stock, assuming a constant capital output ratio. The optimal capital stock is a constant proportion of output. The level of net investment is proportional to changes in output, with a low net investment when changes are minor. Some scholars have argued against this theory, citing inconsistencies with downward sloping MEC in the presence of employment.

It therefore follows from Keynes that the inducement to invest depends partly on the MEC and partly on the rate of interest on the contrary. He also observed that the inducement to invest in inversely related to the rate of interest so that when interest rate is high, investments tend to be discouraged and vice versa.

Research design

The design that will be used for this study is the exploratory research design. This research design is chosen to gain background information and to define the terms of the research problem. This research is conducted for a problem that has not been studied more clearly, intended to establish priorities, develop operational definitions and improve the final research design. This study makes use of Secondary data for the period of 1986-2022 which were collected for the period between 1980 and 2017 on the Interest Rate (INT), Inflation Rate (INF), GDP growth rate, and Government Expenditure (GOV EXP). The desk survey method was used to extract data on the variables from the publications bearing in mind the study objectives and hypotheses.

Model specification

The model is based on the classical investment theory which sees investment as dependent on interest rate. However, due to the peculiarity of Nigeria economy, the following factors identified by other investment theory will be included in the model the functional representation of model is as follows:

$INV = \int(INFL, INT, EXCH, GEXP, GDP)$

Where:

INV= Investment

INF = Inflation Rate

EXCH= Exchange rate

INT = Interest Rate

GEXP = Government Expenditure

GDP= GDP growth rate

Rewriting the equation in its econometric form we have:

$INV = X_0 + X_1 INFL + X_2 INT + X_3 EXCH + X_4 GEXP + X_5 GDP + \Theta$

Where Ə is the error team and X1 to X4 represents the various parameters.

The model has the following prior assumptions

$X_1 < 0, X_2 < 0, X_3 < 0, X_4 > 0, X_5 > 0$

The independent variables are: Interest Rate, Inflation Rate and Government Expenditure

Techniques of data analysis

Data collected will be analysed using E-views 12 statistical software. The ordinary least squares multiple regression analytical technique and interpretation will be used. This technique is justified as it is the Best Linear Unbiased Estimate (BLUE) of the relationship.

Data analysis
Descriptive statistics

The result of the descriptive statistics is presented in the table below. The analysis depicted that the arithmetic average for domestic investment (INV) stood at 40861.09, for the thirty-seven (37) years period. This positive value of INV implies that gross domestic investment in Nigeria was positive. The range for INV was observed at 189769. This is the difference between the maximum and the minimum values of the data. The standard deviation stood at 43906.60. The value of inflation rate (INFL) shows its minimum value as 5.38000 in 1990 and maximum of 19.8100 in 2021; with a mean value and standard deviation of 19.42000 and 17.47463 respectively.

Further the descriptive statistics revealed that the mean value of interest rate (INTR) was 18.27216 for the same period with its standard deviation of 3.876245. This demonstrated that there is a wide dispersion in interest rate (INTR) as it deviates too much from the mean. Again, the analysis showed that exchange rate (EXCH) stood at an average of 131.3142 with a standard deviation of 118.7233 while government expenditure (GEXP) stood at an average of 2919.825 with a standard deviation of 3405.705 and a minimum and maximum value of 16.22680 and 12268.12 respectively. Finally, the GDP growth rate (GDP) revealed its mean value as 61626.17 with a standard deviation of 106667.1 having its minimum value as 198.1232 and its maximum value of 477435.4.

Result of descriptive statistics

	INV	INFL	INTR	EXCH	GEXP	GDP
Mean	40861.09	19.42000	16.59969	2.803974	11.73469	61626.17
Median	40514.52	12.38000	14.60000	5.528430	10.76500	18124.06
Maximum	189783.6	19.81000	24.90000	18.18000	23.99000	477435.4
Minimum	14.06000	5.380000	8.460000	-31.45257	4.700000	198.1232
Std. Dev.	43906.60	17.47463	5.621450	9.959900	4.875431	106667.1
Skewness	1.074619	1.750174	0.136219	-1.508632	0.989988	2.284749
Kurtosis	4.493580	4.770060	1.379251	5.841571	3.459458	11.19567
Jarque-Bera	10.56042	4.168766	3.601399	22.90455	5.508541	154.8698
Probability	0.005091	0.124384	0.165183	0.000011	0.063655	0.000000
Obs	37	37	37	37	37	37

Source: E-views 12.0 statistical software

Furthermore, the analysis indicated that the measurement of skewness showed that INV, INFL, INTR, EXCH, GEXP and GDP are positively skewed towards normality because their mean values are relative larger than the median variables as detected in the models. The coefficient of the kurtosis of INV, INFL, INTR, EXCH, GEXP and GDP indicated that the variables were found to be peaked (3.00 and above) (Leptokurtic). The JB value of INV, INFL, GEXP and GDP with their corresponding probability of less than or equals to 0.05 percent confirms the normality of the series and suitability for generalization.

Test of stationarity

A test of stationarity that has become widely popular over the past several years is the unit root test. The unit root test conducted in this study is to ensure that the series were stationary and check the problem of having a nonsense regression. To conduct the unit root test, the augmented Dickey-Fuller (ADF) test was introduced. This test is conducted to take care of possible serial correlation in the error terms by adding the lagged difference terms of the regressand.

Augmented Dickey-Fuller – Unit Root Test

Variables	ADF at Level		ADF at First Difference		Order of integration
	Test Stat	Prob.	Test Stat	Prob.	
INV	-1.141395	0.6882	-9.822883	0.0000*	I(1)
INFL	-3.484488	0.0144	-5.298912	0.0001*	I(1)
INTR	-3.387036	0.0505	-5.566735	0.0034*	I(1)
EXCH	1.342456	0.0754	-4.067659	0.0022*	I(1)
GEXP	2.594958	0.3456	-4.930827	0.0005*	I(1)
GDP	2.595328	0.1643	-5.135308	0.0002*	I(1)

Source: E-views 12.0 statistical software

The results reported in the table above indicate that all the series are I(1) after first differencing. Thus, with this it is appropriate to test for existing of co-integration among domestic investment (INV) and the rest of the variables using the Johansen co-integration test.

Co-integration test

Before the co-integration test, there is a need to select the optimum lag for modelling. Hence, the VAR lag order selection criteria test was conducted and reported in Table 4.4 (below). In the table, since the all the criteria (Final prediction error (FPE), Akaike information criterion (AIC), and Hannan-Quinn information criterion (HQ)) except for Schwarz information criterion (SC) unanimously suggest lag length 3. Therefore, this study adopts the AIC of lag length 3 in its model estimation. (the results are presented in the table below).

VAR lag order selection criteria

Lag formation	FPE	AIC	SC	HQ
0	6.73e+22	66.75252	66.97699	66.82907
1	3.40e+20	61.44746	62.79425*	61.90676
2	1.55e+20	60.55993	63.02904	61.40197
3	1.26e+20*	60.07151*	63.66294	61.29629*

* indicates lag order selected by the criterion (tested at 5% level each)

Source: E-views 12.0 statistical software

The results of stationarity analysis presented in the above show that all the modelled variables are integrated of same order. Therefore, the study then applies the Johansen cointegration tests to explore the long-run relationships among the variables. The results for Trace statistic tests are reported in table below.

Johansen co-integration test

Unrestricted Co-integration Rank Test (Trace)

Hypothesized No. of CE(s)	Eigenvalue	0.05 Critical Value	t-statistics	Prob**
None*	0.878144	169.0867	95.75366	0.0000
At most 1*	0.723183	95.41465	69.81889	0.0001
At most 2*	0.577386	50.46073	47.85613	0.0279
At most 3	0.267449	20.31536	29.79707	0.4017
At most 4	0.214903	9.422581	15.49471	0.3277
At most 5	0.026900	0.954379	3.841465	0.3286

Source: E-views 12.0 statistical software

The results for trace rank tests indicate three cointegration equation exists among the set of the variables at 5% level of significance. It is clearly shown that the trace tests suggest at least three cointegration vector. This result suggests that at least three cointegration vector exists among the dependent variables (INV) and all the independent variables (INFL, INTR, EXCH, GEXP, GDP). This implies that long run movements of the variables are determined by three equilibrium relationship.

Empirical Estimation

The results of the estimated coefficients obtained through the OLS regression results are presented in table below. The estimated coefficients of the constant term showed that domestic investment (INV) will have a positive increase of 23438 units in Nigeria when all other variables

(INFL, INTR, EXCH, GEXP, GDP) are held constant. Further analysis of the result revealed that, the estimated coefficient for INFL shows that a 355.6986 unit increase in INFL will cause a corresponding unit decrease to domestic investment in Nigeria and was found to be statistically insignificant. The implication is that, inflation negatively affect domestic investment in Nigeria.

OLS regression result

Dependent Variable: INV

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	23436.68	31966.65	0.733160	0.4690
INFL	-355.6986	352.4117	-1.009327	0.3206
INTR	-182.8560	1642.605	-0.111321	0.9121
EXCH	-5.724775	170.5791	-0.033561	0.9734
GEXP	13.97654	7.015580	1.992215	0.0552
GDP	-0.200954	0.115206	-1.744309	0.0910
R-squared	0.544068	Durbin-Watson stat		0.946775

Source: E-views 12.0 statistical software

The estimated coefficient for INTR {-182.8560} with a corresponding probability of 0.3206 shows that a percentage change in INTR will cause a corresponding percent decrease in domestic investment (INV) in Nigeria and was also found to be statistically insignificant. This implies that domestic investment in Nigeria was affected by interest rate. Similarly, exchange rate (EXCH) has a negative coefficient of -5.72477 but with an insignificant probability value of 0.4828. Further, government expenditure (GEXP) has a positive coefficient of 13.97654 and a significant probability value of 0.0552 at 1% level of significance. Lastly, GDP growth rate (GDP) affects INV negatively with GDP coefficient of -0.200954 and a corresponding probability of GDP on INV is 0.0910 which is statistically insignificant.

The R^2 {R-Squared} which measures the overall goodness of fit of the entire regression, shows the value as 0.544068 which is 54 per cent. This indicates that the independent variables (INFR, INTR, EXCH, GEXP and GDP) accounts for about 54 per cent of the variation in the dependent variable (INV). Hence, the study does have a goodness of fit. The DW test result indicates the absence of autocorrelation in the model, since the calculated DW is 0.94. This is judged as a good fit, as such, the model is meaningful.

Post-estimation Analysis

The table below presented diagnostics tests of the estimated regression model. The post estimation analysis tests are necessary to check the veracity of the data obtained, the suitability/stability of the model and efficacy of the outcomes necessary for policy recommendations. Hence, the following test results below.

Residual Diagnostic Test Results

Diagnostics tests	Observed values	P-values
Breusch-Godfrey Serial Correlation LM Test	9.371020	0.0014
Jarque-Bera Normality Test	144.2427	0.1000
Ramsey Test	5.874130	0.0000
Breusch-Pagan-Godfrey Heteroskedasticity Test	0.657890	0.6579
Stability diagnostic test	Stable	Stable

The model passed all diagnostic tests. There was no evidence of serial correlation and the model was well specified, based on their probability values. Similarly, the battery of diagnostic tests for heteroscedasticity and normality of the residuals, did not find any significant evidence of departures from standard assumptions. Additionally, the result of the CUSUM test had plots all within the two straight line showing that the model was stable. Hence the data is good for analyses.

Discussion of findings

This study was an attempt to examine the effect of the determinants of domestic investment in Nigeria. In order to achieve the stated objectives and hypotheses, the study employed several empirical tests and submitted the following findings. The overall result of the descriptive analysis showed the absence of outliers in the data. The JB values for INV, INFL, INTR and INFL and their corresponding probability of less than or equals to 0.05 confirms the normality of the series and suitability for generalization. From the regression results test for the existence of autocorrelation was performed using Durbin-Watson statistic. The test result indicates the absence of autocorrelation in the model, this is judged as a good fit, as such; the model is meaningful.

The ordinary least squares estimation result showed that, changes in inflation rate, interest rate, exchange rate and GDP growth rate have an insignificant negative effect on domestic investment in Nigeria; while changes in government expenditure have a significant positive effect

on domestic product in Nigeria. According to Muhdin (2016), interest rates, inflation and exchange rates are all highly correlated. By manipulating interest rates, Central Banks exert influence over both inflation and exchange rates, and changing interest rates impact inflation and currency values. Increasing interest rate and capital flow volatility are found to raise inflation uncertainty which ultimately influenced domestic investments negatively. The increase in inflation encourages consumers to reduce their savings and influences monetary profits in the long-term period. Therefore, it negatively affects the level of domestic investment. Inflation is the rate at which the general price level of for commodities is rising and consequently, the purchasing power is falling.

Further, GDP growth is said to have a negative effect on domestic investments, which goes against our initial expectations. This outcome is based on the argument that when a country's GDP grows rapidly, it can lead to inflation and higher interest rates, making it costlier for individuals and businesses to borrow money for investment. Additionally, as an economy expands, it may attract more foreign investment, leading to a decrease in domestic investment. However, in Nigeria, it is hard to determine if this negative relationship is true as the country has been experiencing declining growth, couple with, high inflation, and interest rates. As a result, the negative correlation between GDP growth and domestic investment in Nigeria varies based on the prevailing economic and political circumstances. The works of Hussain, Khan and Akber (2016) contradicts the argument presented as the authors found that GDP growth has a positive effect on domestic investment.

Finally, government capital expenditure mostly exhibited a positive effect domestic investment level in Nigeria. This means that government expenditure in capital projects has huge promoting impact on domestic investment level in Nigeria. This result may have been due to the fact that significant capital investment by the government seemed to have triggered domestic investment among the populace in Nigeria. The outcome of this study was consistent with finding by Monacelli, Tommaso and Trigari (2010) that analysed the effects of government spending shocks on economic activities and found that to positive shocks to government expenditure engenders investment level. This means that increase in government expenditure has led to an increase in investment level.

Conclusion

This examination evaluated the determinants of domestic investment in Nigeria and to particularly analyse the connection between INFL, INTR, EXCH, GEXP, GDP and INV in Nigeria. The findings in this study showed that all the explanatory variables except government expenditure negatively impacts domestic investment determination in Nigeria. Additionally, the relationship between inflation rate, interest rate, exchange rate and GDP growth rate and domestic investment was insignificant with their corresponding probability values less greater than 5% and 1% significant level. The result from empirical analysis showed that government expenditure had

a positive and significant influence on domestic investment in Nigeria. Specifically, the result showed support and conformity with the Keynesian hypothesis that, the relationship between government expenditure and investment level in Nigeria was positive and significant. On the bases of these discoveries, the examination concluded that the selected variables jointly affect the level of domestic investment in Nigeria. However, if government focus is on promoting domestic investment, possible recommendations could be to implement policies that incentivize domestic investment. This could include tax credits, maintaining low inflation rate, stability of exchange rate and increase the share of capital spending in its budgetary allocation so as to increase implementation of capital projects in the country.

Suggestion for further research

Further studies should try to include some socio-graphic values as well as institutional values as determinants of domestic investments along with other macroeconomic determinants in studies.

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