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Original Research Article

Beyond Macroeconomic Stability: Economic Growth(GDP), Institutional Quality and Domestic Private Investment Dynamics in Nigeria, 1980 to 2024

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Abstract: Domestic private investment is important to capital formation in Nigeria, yet the relative importance of growth, institutional quality and conventional macroeconomic variables remains insufficiently established within a single empirical framework. This study examines domestic private investment in Nigeria from 1980 to 2024 using annual time series data and an autoregressive distributed lag framework. The Augmented Dickey-Fuller results indicate a mixed order of integration, with inflation and interest rates stationary at level and the remaining variables becoming stationary after first differencing. The ARDL bounds test reports an F statistic of 5.943, exceeding the reported 1 percent upper bound of 4.26 and indicating a levels relationship among the variables. The dynamic level estimates show that lagged investment is positive and significant at 0.516, while economic growth is positive and significant at 0.671, and institutional quality is positive and significant at 0.122. Inflation, interest rate, exchange rate, government expenditure and external shocks are not statistically significant in the same equation. In the short run, economic growth remains positive and significant at 1.098, while the error correction coefficient of minus 0.773 indicates substantial annual adjustment towards equilibrium. Pairwise Granger testing shows predictive precedence from economic growth to investment, with a probability value of 0.0020. The evidence therefore identifies economic growth as the most persistent observed correlate of domestic private investment, while institutional quality appears more relevant to the persistent investment relationship than to immediate annual changes. The findings shift the Nigerian investment debate from macroeconomic stability considered in isolation towards the combined importance of productive expansion and institutional credibility.

Keywords: Domestic Private Investment, Economic Growth, Institutional Quality, Macroeconomic Stability, Nigeria, ARDL, GDP

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1. Introduction

Domestic private investment determines whether increases in economic activity are translated into additional productive capacity. In Nigeria, however, investment decisions have occurred alongside persistent inflation, exchange rate movements, financing constraints and institutional weaknesses. The empirical question is therefore not whether these conditions matter in principle, but which of them retain explanatory power when they are estimated jointly.

Greene and Villanueva (1991) reported a positive association between real GDP growth and domestic private investment across developing countries, while their estimates also showed negative relationships between real interest rates, inflation and private investment. Ndikumana (2000) found that financial development was positively associated with domestic investment in Sub-Saharan African countries, whereas inflation and government domestic borrowing were negatively associated with investment. These findings establish specific macroeconomic and financial channels, but they do not determine whether the same variables dominate domestic private investment in Nigeria when institutional quality and economic growth are considered simultaneously.

Nigeria-specific evidence points to additional constraints. Bakare (2011) identified political instability, macroeconomic instability and inadequate infrastructure as significant conditions associated with private domestic investment. This finding is important because it places the investment decision within the wider operating environment rather than reducing it to the cost of finance.

Institutional conditions provide another channel. North (1990) linked institutional arrangements to incentives and transaction costs, implying that the security and predictability of economic rules can influence investment decisions through the cost of undertaking and protecting economic activity. In Nigeria, Osuma et al. (2024) found that corruption and political instability reduced foreign direct investment inflows. Their finding concerns foreign rather than domestic investment, but it establishes an empirically observed Nigerian link between institutional conditions and capital allocation.

The distinction between domestic and foreign investment is also relevant to exchange rate evidence. Adewale et al. (2024) reported a significant positive association between exchange rates and foreign direct investment in Nigeria. That result cannot automatically be transferred to domestic private investment because foreign investors and domestic firms face different financing, currency exposure and market entry conditions.

Fiscal policy provides a similar empirical distinction. Erden and Holcombe (2005) found evidence that public investment could crowd in private investment. Their finding concerns productive public investment rather than aggregate government expenditure. The distinction matters for Nigeria because an aggregate expenditure measure may combine capital and recurrent spending with different implications for private capital formation.

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Macroeconomic uncertainty may also be more relevant than the annual level of a single stability indicator. Servén (1998) found a strong negative relationship between macroeconomic uncertainty and domestic private investment in developing countries and identified exchange rate uncertainty as an important component of that relationship. In Nigeria, Oyadeyi (2024) found that monetary policy rates, lending rates, oil prices, government expenditure and financial development significantly affected exchange rate volatility. These findings suggest that instability can operate through uncertainty even where the annual level of an individual macroeconomic variable does not exhibit a significant investment coefficient.

The unresolved issue is therefore the relative explanatory position of economic growth and institutional quality after conventional macroeconomic variables are controlled jointly. The present study addresses this issue using Nigerian annual data from 1980 to 2024. The analysis contributes by separating the persistent investment relationship from short-run adjustment and by testing predictive precedence between investment and its proposed determinants. The central empirical proposition is that economic expansion and institutional quality provide stronger evidence of persistent domestic private investment dynamics than inflation, interest rate, exchange rate, aggregate government expenditure or a binary external shock measure.

2. Materials and Methods

2.1 Research Design and Data

The study uses a longitudinal annual time series covering 1980 to 2024, providing 45 observations. The period incorporates major changes in Nigeria's macroeconomic and institutional environment, including structural adjustment, financial sector reforms, exchange rate regime changes, oil price disturbances and the COVID-19 period.

Secondary data were obtained from the Central Bank of Nigeria Statistical Bulletin, National Bureau of Statistics, World Development Indicators, IMF, OPEC and Worldwide Governance Indicators, as specified in the study dataset. Domestic private investment is the dependent variable. The explanatory variables are inflation, interest rate, exchange rate, economic growth, government expenditure, institutional quality and external shocks.

The variables are represented as LINV, LINF, LINT, LEXR, LGDP, LGEX, INSQ and EXTS. Continuous variables are expressed in logarithmic form where appropriate, while institutional quality and the external shock indicator retain their stated forms.

2.2 Model Specification

The empirical relationship is expressed as:

$$LINVt=f(LINF_t, LINT_t, LEXR_t, LGDP_t, LGEX_t, INSQ_t, EXTS_t)$$

The dynamic specification includes lagged investment and selected lagged explanatory variables:

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$$LINV_T = \alpha + \varnothing LINV_{t-1} + \beta_1 LINF_t + \beta_2 LINT_{t-1} + \beta_3 LEXR_{t-1} + \beta_4 LGDP_t + \beta_5 LGEX_t + \beta_6 EXTS_{t-1} + \beta_7 INSQ_t + \varepsilon_t$$

The lagged dependent variable captures persistence in investment. The estimation sequence consists of the Augmented Dickey-Fuller test, ARDL bounds test, dynamic level estimation, error correction modelling and pairwise Granger predictive precedence tests. The Granger results are interpreted as temporal predictive precedence rather than structural causation.

2.3 Diagnostic Tests

Residual behaviour is assessed using the Jarque-Bera normality test, Breusch-Godfrey serial correlation LM test and heteroskedasticity test. These tests identify whether residual distribution, serial dependence or residual variance presents evidence of model misspecification.

3. Results

3.1 Descriptive Statistics

Table 1. Descriptive statistics of study variables

Statistic	LINV	LINF	LINT	LEXR	LGDP	LGEX	EXTS	INSQ
Mean	14.77602	2.707788	2.800191	3.849296	26.22029	2.104924	0.244444	−0.755069
Median	14.41946	2.565718	2.829678	4.795543	26.11453	2.112635	0.000000	−1.066940
Maximum	15.72579	4.288265	3.394508	6.568583	27.01650	2.859913	1.000000	0.000000
Minimum	13.83424	1.684545	2.047693	−0.494296	25.46419	1.638997	0.000000	−1.586481
Standard deviation	0.627764	0.663957	0.278326	2.075699	0.547158	0.258757	0.434613	0.580604
Observations	45	45	45	45	45	45	45	45

Source: Author's computation, 2026.

Table 1 shows that the exchange rate has the largest standard deviation among the continuous variables at 2.076, indicating substantially greater dispersion over the study period than the interest rate at 0.278 and government expenditure at 0.259. The Jarque-Bera probabilities are below 0.05 for external shocks and institutional quality, while the probabilities for the other variables exceed 0.05. Thus, normality is not rejected for most of the continuous series, but the external shock and institutional quality distributions depart from the normality assumption.

The exchange rate dispersion is relevant to the uncertainty literature. Servén (1998) identified exchange rate uncertainty as an important negative influence on private investment in developing countries, while Oyadeyi (2024) found that monetary policy rates, lending rates, oil prices, government expenditure and financial development significantly affected exchange rate volatility in Nigeria. The present descriptive evidence establishes substantial exchange rate variation, but it does not by itself establish an investment effect.

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3.2 Stationarity Test

Table 2. Augmented Dickey-Fuller unit root test

Variable	Level ADF statistic	Level p value	First difference ADF statistic	First difference p value	Integration order
EXR	−2.095899	>0.05	−5.718411	0.0000	I(1)
GDP	[reported in source]	>0.05	−4.481470	0.0008	I(1)
GEX	[reported in source]	>0.05	−9.253902	0.0000	I(1)
INV	[reported in source]	>0.05	−5.986962	0.0000	I(1)
INSQ	[reported in source]	>0.05	−6.858578	0.0000	I(1)
INF	Stationary	<0.05	—	—	I(0)
INT	Stationary	<0.05	—	—	I(0)

Source: Author's computation, 2026.

Table 2 establishes the mixed integration structure required for the subsequent ARDL analysis. Inflation and the interest rate are stationary at level, whereas the exchange rate, GDP, government expenditure, investment and institutional quality become stationary after first differencing. No variable is reported as integrated beyond first order. This combination of I(0) and I(1) variables provides the empirical basis for the ARDL bounds procedure.

3.3 ARDL Bounds Test

Table 3. ARDL bounds test for levels relationship

Test	Value
F statistic	5.943418
Number of regressors, K	7
10% lower bound I(0)	2.03
10% upper bound I(1)	3.13
5% lower bound I(0)	2.32
5% upper bound I(1)	3.50
2.5% lower bound I(0)	2.60
2.5% upper bound I(1)	3.84
1% lower bound I(0)	2.96
1% upper bound I(1)	4.26

Source: Author's computation, 2026.

The F statistic of 5.943 exceeds the reported upper bound of 4.26 at the 1 percent level. Table 3 therefore provides evidence against the null hypothesis of no levels relationship. The subsequent dynamic and error correction estimates are consequently interpreted within a framework that permits adjustment towards a common equilibrium relationship.

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3.4 Dynamic Level Estimates

Table 4. Dynamic level model estimates

Variable	Coefficient	Standard error	t statistic	p value
LINV(-1)	0.516108	0.103342	4.994180	0.0000
LINF	−0.022137	0.025347	−0.873358	0.3884
LINT(-1)	−0.009294	0.070268	−0.132264	0.8955
LEXR(-1)	−0.005319	0.028537	−0.186398	0.8532
LGDP	0.671371	0.166615	4.029468	0.0003
LGEX	0.000415	0.073600	0.005637	0.9955
EXTS(-1)	−0.021958	0.046201	−0.475280	0.6375
INSQ	0.122132	0.054971	2.221747	0.0329
Constant	−10.233820	3.239342	−3.159228	0.0033
R squared	0.985287			
Adjusted R squared	0.981925			
F statistic	292.9890			0.0000
Durbin Watson	1.961139			

Source: Author's computation, 2026.

Table 4 identifies three statistically significant coefficients in the dynamic level equation. Lagged domestic private investment is positive at 0.516 with $p < 0.001$, indicating persistence in the investment series. Economic growth is positive at 0.671 with $p = 0.0003$. Institutional quality is positive at 0.122 with $p = 0.0329$.

The remaining explanatory variables do not reach the 5 percent significance level. Inflation has a coefficient of −0.022 with $p = 0.3884$. The interest rate has a coefficient of −0.009 with $p = 0.8955$. The exchange rate has a coefficient of −0.005 with $p = 0.8532$. Government expenditure has a coefficient of 0.0004 with $p = 0.9955$, while the external shock measure has a coefficient of −0.022 with $p = 0.6375$.

The R-squared of 0.9853 indicates a high in-sample fit, but this statistic should not be interpreted as the proportion of investment causally explained by the regressors. The presence of lagged investment makes the persistence coefficient and the statistically significant explanatory variables more informative than the raw goodness of fit.

3.5 Short Run Error Correction Model

Table 5. Error correction model estimates

Variable	Coefficient	Standard error	t statistic	p value
D(LINV(-1))	0.376631	0.183971	2.047233	0.0487
D(LINF)	−0.026485	0.020626	−1.284026	0.2081
D(LINT(-1))	−0.047202	0.070668	−0.667949	0.5088
D(LEXR(-1))	0.032012	0.053668	0.596472	0.5549
D(LGDP)	1.098326	0.302960	3.625317	0.0010
D(LGEX)	−0.053681	0.074514	−0.720425	0.4763
D(EXTS(-1))	−0.012347	0.037053	−0.333243	0.7411
D(INSQ)	0.037366	0.064015	0.583709	0.5634
Constant	−0.015409	0.018021	−0.855039	0.3987

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Variable	Coefficient	Standard error	t statistic	p value
ECM(-1)	−0.772590	0.256132	−3.016371	0.0049
R squared	0.563773			
Adjusted R squared	0.444802			
F statistic	4.738736			0.000437
Durbin Watson	1.910012			

Source: Author's computation, 2026.

Table 5 shows that economic growth remains the only substantive explanatory variable with a statistically significant positive short-run coefficient. The coefficient of 1.098 has a probability value of 0.0010. Lagged changes in investment are also positive and significant at 0.377 with p = 0.0487, confirming short-run persistence.

The error correction coefficient is −0.773 and statistically significant at p = 0.0049. Conditional on the reported levels relationship, approximately 77.3 percent of the previous period's disequilibrium is adjusted within one year. This coefficient indicates relatively rapid movement back towards the estimated equilibrium following short-run deviations.

Institutional quality does not produce a statistically significant short-run coefficient. Its coefficient is 0.037 with p = 0.5634. Inflation, interest rate, exchange rate, government expenditure and external shocks are also statistically insignificant in the short-run equation.

3.6 Predictive Precedence

Table 6. Pairwise Granger predictive precedence tests

Null hypothesis	F statistic	p value	Decision at 5%
LINF does not predict LINV	0.69384	0.5059	Do not reject
LINV does not predict LINF	0.05706	0.9446	Do not reject
LINT does not predict LINV	0.81593	0.4498	Do not reject
LINV does not predict LINT	5.77435	0.0065	Reject
LEXR does not predict LINV	1.91173	0.1618	Do not reject
LINV does not predict LEXR	0.18718	0.8301	Do not reject
LGDP does not predict LINV	7.32726	0.0020	Reject
LINV does not predict LGDP	3.15753	0.0539	Do not reject
LGEX does not predict LINV	0.34317	0.7117	Do not reject
LINV does not predict LGEX	0.48274	0.6208	Do not reject
EXTS does not predict LINV	0.21934	0.8041	Do not reject
LINV does not predict EXTS	11.1058	0.0002	Reject
INSQ does not predict LINV	1.51566	0.2326	Do not reject
LINV does not predict INSQ	0.26498	0.7686	Do not reject

Source: Author's computation, 2026.

Table 6 provides the strongest evidence for the temporal position of economic growth in the investment process. The null hypothesis that economic growth does not predict investment is rejected at p = 0.0020, while the reverse hypothesis is not rejected at p = 0.0539. The result indicates predictive precedence from growth to investment rather than structural causality.

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No predictive precedence is detected from inflation, exchange rate, government expenditure or institutional quality to domestic private investment. Interest rate also does not predict investment, although investment predicts interest rate at p = 0.0065. This latter result should be interpreted as temporal precedence rather than evidence that investment structurally determines interest rate.

The external shock result requires particular caution. Investment appears to predict the external shock indicator at p = 0.0002, but a domestic investment series cannot plausibly be treated as the structural origin of events represented by an externally defined shock dummy. The result is therefore treated as a limitation of the pairwise test rather than as an economic causal mechanism.

3.7 Residual Diagnostics

Table 7. Diagnostic tests

Test	F statistic	p value
Normality	2.301964	0.316326
Serial correlation LM test	1.447875	0.2505
Heteroskedasticity	0.872738	0.5584

Source: Author's computation, 2026.

Table 7 provides no evidence against the null hypotheses of normal residual behaviour, absence of serial correlation and constant residual variance at the conventional 5 percent level. The normality test has p = 0.3163, the serial correlation LM test has p = 0.2505, and the heteroskedasticity test has p = 0.5584. These results reduce concern about the specific residual problems tested, although they do not establish parameter stability over the full sample.

4. Discussion

The most consistent empirical result is the relationship between economic growth and domestic private investment. Growth is positive and significant in the dynamic level equation at 0.671, remains positive and significant in the short run at 1.098 and predicts investment in the Granger test at p = 0.0020. The three results point in the same direction and provide stronger evidence than reliance on a single regression coefficient.

This result is consistent with Greene and Villanueva (1991), who found a positive relationship between real GDP growth and private investment across developing countries. The Nigerian evidence adds a narrower result by showing that growth retains significance when institutional quality, fiscal expenditure, external shocks and conventional macroeconomic variables are included simultaneously. The finding is consistent with an investment response to expanding economic activity, although the estimates do not establish a structural accelerator mechanism by themselves.

Institutional quality produces a different pattern. Its coefficient is positive and significant at 0.122 in the dynamic level equation, but its short-run coefficient is only 0.037 and is statistically insignificant. The contrast suggests that institutional conditions are more closely associated with the persistent investment relationship than with year-to-year

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investment changes. North (1990) connected institutions with incentives and transaction costs, while Osuma et al. (2024) found that corruption and political instability reduced foreign direct investment inflows in Nigeria. The present finding extends the empirical discussion to domestic private investment, but the difference between domestic and foreign capital means the two results should not be treated as identical.

Inflation does not retain an independent statistically significant coefficient. Its negative level coefficient of −0.022 is consistent with the direction reported by Greene and Villanueva (1991), who found a negative inflation relationship with private investment across developing economies, but the Nigerian estimate is statistically weak. The evidence therefore does not support inflation as an independent determinant of investment within the estimated specification.

Interest rate produces an even weaker result. Its level coefficient is −0.009 with $p = 0.8955$, and its short-run coefficient is −0.047 with $p = 0.5088$. Although both estimates are negative, neither provides evidence of a statistically significant investment response. This contrasts with Greene and Villanueva (1991), who reported a negative relationship between real interest rates and private investment in developing countries.

The exchange rate is similarly insignificant. The dynamic coefficient is −0.005 with $p = 0.8532$, while its short-run coefficient is positive at 0.032 with $p = 0.5549$. The change in sign across specifications reinforces the weakness of the evidence for a stable independent exchange rate effect on domestic private investment. The result also differs from Adewale et al. (2024), who found a significant positive association between the exchange rate and foreign direct investment in Nigeria. The divergence indicates that evidence for foreign investment should not automatically be applied to domestic private investment.

Government expenditure has virtually no independent explanatory contribution in the dynamic level equation. Its coefficient is 0.0004 with $p = 0.9955$, and the short-run coefficient is negative at −0.054 with $p = 0.4763$. This result differs from Erden and Holcombe (2005), who found that public investment crowded in private investment. The difference is empirically meaningful because productive public investment is not equivalent to aggregate government expenditure.

The external shock variable is insignificant in both the dynamic level and short-run equations. Its level coefficient is −0.022 with $p = 0.6375$, while the short-run coefficient is −0.012 with $p = 0.7411$. Ojeyinka and Yinusa (2023) found temporary transmission of external shocks in Nigeria through oil prices, foreign output and inflation. The present result suggests that a binary shock indicator does not capture a statistically independent investment effect after the model controls for other channels.

The error correction result provides evidence of substantial adjustment. The coefficient of −0.773 indicates that approximately 77.3 percent of disequilibrium is corrected within one year. This result is important because the significant bounds test

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establishes a levels relationship while the error correction specification identifies the speed at which deviations from that relationship are reduced.

Taken together, the results do not support treating all macroeconomic variables as equally important determinants of domestic private investment. Growth is supported by the dynamic level estimate, the short-run estimate and predictive precedence. Institutional quality is significant in the dynamic level equation but not in the short run. Inflation, interest rate, exchange rate, government expenditure and external shocks do not exhibit comparable independent statistical strength.

5. Empirical Contribution and Novelty

The principal contribution is the identification of a growth-centred investment relationship within a joint Nigerian model covering 1980 to 2024. Economic growth is the only explanatory variable that is simultaneously positive and significant in both the dynamic level and short-run equations and also exhibits predictive precedence over domestic private investment.

The second contribution is the distinction between the persistent and immediate institutional effects. Institutional quality is positive and significant at 0.122 in the dynamic level model but insignificant at 0.037 in the short run. This result suggests that institutional improvement may be reflected more strongly in persistent investment conditions than in immediate annual investment changes.

The third contribution is the weak independent role of conventional stability variables after growth and institutional quality are included jointly. Inflation, interest rate and exchange rate do not achieve statistical significance in the principal investment equations. This finding differs from studies that identify individual macroeconomic variables as significant investment determinants and indicates that their explanatory importance may depend on the broader conditioning set.

The fourth contribution concerns fiscal composition. The insignificant aggregate government expenditure coefficient should not be interpreted as evidence against productive public investment. Instead, it distinguishes aggregate spending from the public investment measure examined by Erden and Holcombe (2005).

The fifth contribution is the distinction between external shocks and their transmission channels. The insignificant shock coefficient suggests that the direct effect of a binary shock measure is weak after growth and other macroeconomic variables are controlled. This does not imply that external disturbances have no economic consequences.

6. Limitations and Research Implications

The study is based on 45 annual observations, which constrains the complexity of the dynamic specification. The external shock variable is binary and therefore does not distinguish the magnitude or duration of individual shocks. Institutional quality is represented by an aggregate measure and may conceal differences among specific

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governance dimensions. Exchange rate volatility is also not directly modelled, limiting direct comparison with the uncertainty mechanism identified by Servén (1998).

The reported results also require formal parameter stability testing before submission to a high-ranking journal. CUSUM and CUSUMSQ statistics are not contained in the available estimation output. Because the sample spans major changes in Nigerian economic policy and external conditions, stability evidence should be reported alongside the existing residual diagnostics.

The ARDL lag selection criterion and the exact selected lag structure should also be stated explicitly. The current output establishes the bounds statistic and the estimated dynamic equation, but the final article should report the lag selection procedure used to obtain the preferred specification.

7. Conclusion

The evidence identifies economic growth as the most consistent observed determinant of domestic private investment in Nigeria from 1980 to 2024. Its coefficient is positive and significant in the dynamic level model, positive and significant in the short run model and predictive of investment in the Granger test.

Institutional quality provides a second, more persistent relationship. Its positive coefficient is significant in the dynamic level equation but not in the short run model. This pattern distinguishes institutional credibility from variables that might be expected to affect investment immediately.

Inflation, interest rate, exchange rate, government expenditure and the external shock indicator do not show statistically significant independent effects in the principal investment equations. Their insignificance should not be interpreted as evidence that these variables are economically irrelevant. Rather, their direct statistical contribution is weak after growth, institutional quality and investment persistence are incorporated.

The central implication is therefore specific. Policies designed to increase domestic private investment should not be assessed solely through the conventional stability indicators used in isolation. The stronger empirical evidence in this study concerns the expansion of economic activity and the institutional conditions that support persistent private capital commitment. For Nigeria, the investment challenge is consequently not only one of stabilising macroeconomic variables, but also of sustaining productive growth and strengthening the institutional environment within which domestic firms make long-term investment decisions.

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