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MACROECONOMIC INDICATORS AND CAPITAL FORMATION GROWTH IN NIGERIA: A NEW EVIDENCE

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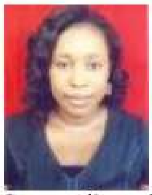

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ABSTRACT

This paper estimates the impact of macroeconomic indicators on the growth of capital formation in Nigeria. Adopting the Autoregressive Distributed Lag Model (ARDL), the empirical findings showed that Foreign aid which is proxied by Overseas Development Assistance (ODA) and Domestic Private Investment (DPI) had positive impact on capital formation growth in Nigeria, while exchange rate, trade openness, and external debt had negative impact for the period under review. The study therefore recommends that aid, especially from the West should not be highly depended upon as a major source of revenue for the development of the economy. Other macroeconomic determinants of capital growth that government should encourage include; savings, investment and the quality of institutions.

Contribution/Originality: This study tests the impact of macroeconomic indicators on the growth of capital formation in Nigeria within the framework of the Autoregressive Distributed Lag Model (ARDL).

1. INTRODUCTION

Many developing countries, especially in Africa have been confronted by low level of savings and capital formation. Some studies have however argued that the capital formation of a country can be improved by the inflow of foreign aid which is vital for economic growth (Sothan, 2018). Some of the vital objectives of foreign aid include the halting of world poverty, boost capital formation and improve the living standards of people especially in developing countries (Hussain *et al.*, 2017). This is essentially the basic need of Africa. Interestingly, Africa has been one of the great recipients of foreign aid in the global community. The report put forward by OECD in 2009 shows a terrifying statistics that in 2008, the total foreign aid from members of Development Committee (DAC) increased in real terms by 10.2% in the tune of US$110.8 billion. Subsequent annual records have it that it further increased to the tune of US$130 billion in 2010. In 2013, foreign aid further increased by 6.1% in real terms which was adjudged as the highest level ever recorded. There was also a provision by foreign donors in at the magnitude of US$ 134.8 billion in the form of net official development assistance which was a rebound following falling rates after two years of global financial/economic crisis. On the other hand, there was also a rise in bilateral trade in favour of Africa and Sub Saharan Africa by the magnitude of 10.6% and 10% respectively. Africa justifiably needs significant foreign inflow to hedge the cascading and deteriorating living standards of the people. Studies have confirmed that during the 1980s, the per capita income of the average Sub Saharan African fell consistently at an annual rate of 2.2% while consumption per capita deteriorated by 14.8%. On the same vein, the volume of import rose by an annual rate of 4.3% while the volume of export was fixed, which was not healthy for the economy. In the 90s, the growth rate per capita was also seen to falling continuously until it reached its negative levels. It is also documented that about 79% to 80% of Sub Saharan Africa countries were identified as countries that has low human investment capacity and were also categorized as highly indebted (Bakare, 2011). Based on the above analysis, it becomes justifiable to assert that Africa needs assistance beyond the domestic resources as it will be a great move to help them escape the strap of economic decadence (Riddle, 2007).

Domestically, the situation in Nigeria also calls for concern. For example, Nigeria which was in the early years of 1970 ranked as one of fifty richest countries has deteriorated so terribly to the extent of being categorized as one of the twenty five poorest nations of the world under the timing of the 21st century. A terrifying economic irony exists in Nigeria as it is categorized as the 6th largest exporter of crude oil and yet has the 3rd largest number of impoverished people as its inhabitants (Igbuzor, 2013). Subsequent years have shown signs for urgent foreign assistance to countries categorized as developing to which Nigeria belongs.

Developing countries like Nigeria are indeed characterized by low level of income, high level of unemployment, very low industrial capacity utilization, and high poverty level just to mention a few of the various economic problems these countries are often faced with. In addressing these problems, foreign aid has been suggested as a veritable option for augmenting the meagre domestic resources. While some countries that have benefited from foreign assistance at one time or the other have grown such that they have become aid donors (South Korea, North Korea, China etc.), majority of countries in Africa like Nigeria have remained backward. Nigeria has continued to benefit from all sorts of foreign assistance and in fact still collect at least as much as the amount collected in the early 1980s, yet socio-economic development has remained dismal. While there could be so many factors both qualitative and quantitative explaining these unfavourable trends, the incessant socio-political crisis, policy inconsistencies, macroeconomic instability and bad governance evident in many developing countries which are indeed indicators of poor policy framework, should give one a pause (Salisu, 2007).

Foreign capital enters a country in the form of private capital and/or public capital. However, public foreign aid has been found to be more effective in accelerating economic development than private foreign capital. Thus, financial needs of developing countries like Nigeria are so great that private foreign investment can only partially solve the problem of financing. For instance, foreign private investment has been found to contribute minimally to social expenditures in such spheres as education, public health, medical programmes, technical training, research and so forth. Such schemes directly and indirectly contribute to economic efficiency and productivity of the economy in the long-run and could, therefore be financed with the help of grants received from advanced countries and international organizations. Thus, foreign aid is expected to facilitate industrialization, in building up economic overhead capital, boosting economic growth and productivity and creating larger employment opportunities in a country like Nigeria.

As earlier stated, Nigeria has been a beneficiary to global foreign aid disbursed to African countries. Annually, she receives an overseas development assistance that runs into millions and billions of dollars, but whether such inflow translates into improved gross capital investment which is a necessary condition for economic growth remains a mirage. For instance, the foreign aid received by Nigeria in 1980 was valued at $34.4million and slightly increased to $39.25 million in 1981 with a corresponding level of gross capital investment valued at N133.2200 billion. In 1982, the amount of foreign assistance in favour of Nigeria economy reduced to $34.95million with a corresponding level of gross capital investment at the value of N103.3100 billion. This record appeared to reveal an unseen correlation between foreign aid and gross capital investment in Nigeria which supports existing literature that asserts a link between foreign aid and growth goes via capital investment. However a closer look at the aid-investment annual statistics in Nigeria further contradicts the link assumption. From 1986 and beyond, the aid-capital investment assumed link raised some doubts in Nigeria economy. The value of official aid inflow was $58.12