International Research Journal of Finance and Economics
ISSN 1450-2887 Issue 134 May, 2015
http://www.internationalresearchjournaloffinanceandeconomics.com

Prvate Savings and Private Investment in Nigeria: What Determines what and what Causes what?

Anthony Orji
Corresponding Author, Department of Economics
University of Nigeria, Nsukka
E-mail: tonyorjiuss@yahoo.com

Jonathan E.Ogbuabor
Department of Economics, University of Nigeria, Nsukka
E-mail: jonathan.ogbuabor@unn.edu.ng

Onyinye I. Anthony-Orji
C/o Department of Economics, University of Nigeria, Nsukka
E-mail: gifted2k4@yahoo.com

Abstract

This paper empirically investigates the determinants of private savings and private investment in Nigeria.The study also examines the direction of causality between savings and investments and tests the existence of structural breaks on savings and investment process in Nigeria. The study adopted linear regression models, granger causality model, and dummy regression models to address the objectives. The empirical results show that real disposable income and real interest rate are positively related to private savings in Nigeria. Also previous savings and inflation are found to be significant determinants of private savings in Nigeria. Furthermore, previous investment, interest rate and real exchange rate are found to be significant determinants of investment in Nigeria. The granger causality model shows evidence of independent causality between private savings and private investment in Nigeria. The dummy regression models show evidence of no significant structural break in private savings and investment within the pre-SAP and post-SAP periods under review (1970-2010). Given the prevalence of low saving rate and invariably low investment rate in Nigeria, we recommend that there is the need for government and monetary authorities to adopt serious income and monetary policy measures that will enhance savings and investment in Nigeria. This can also be achieved by enhancing people's real income through provision of jobs, savings attitude re-orientation and making the economic environment more investment friendly.

Keywords: Private savings, Private investment, Granger causality, Structural break
JEL Classification: D14, D92, E21, E22, G21, O16.

1. Introduction

In macroeconomics, the aggregate spending by individuals or a nation out of income on consumer goods during a given period is known as aggregate consumption. Looking at the national income from the viewpoint of its allocation between consumption and saving, then the proportion of national income which is not consumed is known as aggregate saving.

The study of saving behavior as an integral part of income is very crucial in macroeconomics. This results from its role in determining economic growth since what is saved is available to the nation for investment in new capital goods; capital serve as a driving force behind long-term economic growth. Hence fluctuations in saving are key elements of booms and recessions. Aggregate or national saving is made up of two components which include government saving (ie budget surplus) and private saving, comprising household savings and that of the firms. Government/public savings is the totality of all government taxes less government consumption expenditures. Private saving is made up all disposable income (both earned income and income from wealth) of the households plus all undistributed profits of firms, less personal consumption expenditure. The limitation of private and government expenditure to consumption expenditure alone in the definition of savings above takes to the concepts of investment.

In economics, investment means new expenditures incurred on addition of capital goods. By real investment, it means the addition to the stock of physical capital. It is the most volatile component of Gross Domestic Product (GDP). The study of investments helps economists to better understanding fluctuations in the economy's output of goods and services. For example, in the model of GDP, the IS-LM model is based on the simple investment function relating investment to real interest rate. There are basically three types of investment, namely business fixed investment which includes the equipments and structures that businesses buy to use in production; residential investment which includes the new housing that people buy to live in and that landlords buy to rent out; inventory investment which include those goods that businesses put aside in their stores including materials and stocks, work-in-progress and unfinished goods.From the above definition of investment as the addition to the stock of capital and the role of capital accumulation in fostering economic growth and development, it can be concluded that for an economy to achieve its growth objectives, it must increase its saving mobilization and investment base.

Unfortunately in many developing economies particularly Africa, saving and investment mobilization base has remained low relative to growth in population.For instance, between 1980 – 2001, saving in particular averaged 37.4 percent in Botswana, 21.45 percent in Cameroun, 21.6 percent in Nigeria, 13.9 percent in Kenya and 7.3 percent in Malawi, World Bank (2002). In Nigeria, during the periods between 1986 – 1989, domestic saving averaged 15.7 percent of GDP, 6.0 percent between 1990 – 1994 (due to distress in the financial sector of 1990s). By 2004, the figure stood at 6.9 percent, 13.03 percent in 2007 and 20.4 percent in 2010, CBN (2010). Even though there has been an appreciable increase in the values, it is still not encouraging considering the development challenges facing Nigeria as a country and the important role of private saving and investment, in economic growth and development. To formulate or design appropriate theories or policies to boost saving and investment in Nigeria, it is important to understand and appreciate the saving and investment characteristics of individuals and firms which is a sine qua non to economic development.

The process of development can be rightly described as a generalized process of capital accumulation but the levels and rates of capital accumulation in developing countries and Nigeria in particular are low relative to other emerging economies such as China, Indonesia, Malaysia and so on. For example, in 2008, 2009, 2010 and 2011, Gross savings as a percentage of GDP stood at 53%, 53%, 52% and 53% in China; 26%, 31%, 32% and 32% in Indonesia and 39%, 33%, 34% and 35% in Malaysia respectively, World bank (2012). In Nigeria and Ghana, it stood at 16.9%, 23.2%, 20.4%, CBN,(2011) and 5% 22%, 22%, 9%, World Bank, (2012) respectively within the period under review.

However, savings have remained relatively lower in developed countries due to the level of development attained. For instance, United States recorded 13%, 11%, 12%, 12% gross savings in 2008, 2009, 2010 and 2011 respectively. Investment as a ration of GDP was 18%, 14% 15%, 15% within the same periods. Investment was higher at 44%, 48%, 48%, 48% in China; 28%, 31%, 33%, 33% in Indonesia in the same 2008, 2009, 2010 and 2011 fiscal years respectively.

This relatively lower savings and investment in the developed economies than in emerging and developing economies is in line with Harrod-Domar Growth Model of steady growth. That is, to avert secular stagnation and maintain full employment equilibrium, demand (total spending generated by