ANALYSIS OF INTEREST RATE ON INVESTMENT AND ECONOMIC GROWTH OF NIGERIA

Atiman Kasima Wilson, PhD
Department of General Studies,
Federal Polytechnic, Bali
Taraba State.

Ardo Nuhu Zailani
Department of General Studies,
Federal Polytechnic, Kaltungo.
Gombe State.

Gimba Christopher
Department of General Studies,
Nigeria Institute of Leather
and Science Technology, Zaria.
Kaduna State.

Tanimu Joseph
Department of Psychology,
College of Education, Zing
Tabara State.

Kasim Mohammed Yusuf
Department of Public Administration,
College of Agriculture Science and
Technology, Ganye
Adamawa State.

Corresponding Author:
Atiman Kasima Wilson, PhD
Department of General Studies,
Federal Polytechnic, Bali
Taraba State.

ABSTRACT

The study examined interest rate on investment and economic growth in Nigeria from 1990 to 2025. Specific objectives of the study includes, to examine the short and long-run impact of lending rate on private investment in Nigeria and to examine the trend in interest rate and investment changes in Nigeria from 1990 to 2025. The study employed a quantitative research method where secondary data was sourced from Central Bank of Nigeria Statistical Bulletin, over the period from 1990 to 2025. Data retrieved was analyzed using statistical and econometric methods including descriptive statistics, trend analysis and ARDL. Findings from the study revealed an inverse relationship between lending rate and Gdp from 2010 to 2014. Findings from the unit root test results in Table 4.2 reveal that most variables are integrated of order one [I(1)], meaning they are non-stationary at levels but become stationary after first-differencing. The exceptions are the GDP growth rate (GDPG) and foreign direct investment (FDI), which are stationary at levels [I(0)]. The study concludes that interest rate policy does not operate in isolation but interacts with other macroeconomic and financial variables in determining private investment outcomes. Macroeconomic instability, as manifested in high and volatile inflation and sharp exchange rate depreciation, compounds the investment-dampening effect of high interest rates. Conversely, strong GDP growth and abundant credit supply can partially offset the negative effects of high interest rates by generating investment opportunities and providing the financing needed to seize them. Furthermore, the study recommends that the CBN adopts a more accommodative monetary policy stance with deliberate efforts to compress the wide spread between deposit and lending rates.

Keywords: *ARDL Bounds Testing, Economic Growth, Gross Capital Formation, Interest Rate, Monetary Policy Rate.*

Introduction

Since private investment is one of the most dynamic forces behind capital formation, job creation, technical advancement, and structural change in developing nations, it holds a prominent place in the literature on economic growth and development. Given the ongoing gaps in infrastructure, manufacturing capacity, and productive employment that continue to limit Nigeria's growth potential, the necessity of boosting private investment has been a recurrent policy priority. However, Nigeria's investment climate has been shaped by a complex interaction of macroeconomic uncertainties.

Financial market distortions and institutional flaws, with the interest rate environment playing a particularly important role (Obinna, 2020; Tete, 2025). In a capitalist economy, interest rates function as the fundamental signal that directs investment decisions since they are the price of capital. High interest rates make borrowing more costly, which lowers investment project profitability and discourages consumers and corporations from taking on debt to finance capital expenditures. Furthermore, according to Olawuyi (2025) and Idi (2024), low interest rates lower the cost of capital, promote borrowing, and encourage investment throughout an economy's productive sectors. commercial banks, which serve as the primary intermediaries between savers and investors, have consistently maintained wide spreads between their deposit and lending rates, translating CBN policy signals into commercial lending rates that have frequently exceeded 20 per cent per annum and, in recent years, surpassed 25 per cent as the CBN tightened the monetary rate.

Commercial banks play a particularly important role in this relationship. Over 80% of all credit to the economy comes from Nigerian commercial banks, which are the main providers of official credit to the private sector. The CBN's interest rate policy has also had important implications for the profitability and stability of commercial banks. When the CBN raises the MPR, commercial banks tend to increase their lending rates, which can initially boost their net interest income. However, higher lending rates also increase the probability of loan defaults, elevate non-performing loan (NPL) ratios, and erode the quality of bank assets. Conversely, when rates are lowered, banks face margin compression, particularly if deposit rates do not fall commensurately. The post-2016 period and the period of aggressive monetary tightening from 2022 to 2025, during which the CBN raised the MPR to 18.75 per cent, provided sharp illustrations of these tensions between monetary policy objectives, bank profitability, and the financing conditions available to the private sector (Ajayi, 2026; Onigah, 2024).

From a broader macroeconomic perspective, Nigeria's experience with interest rate policy and private investment is also shaped by structural factors such as the dominance of oil revenues in fiscal flows, the underdevelopment of the capital market as an alternative source of long-term investment finance, the prevalence of dollarization in certain segments of the economy, and the inadequacy of infrastructure that raises the operational costs and risks faced by private investors. These structural factors interact with interest rate dynamics in complex ways that a comprehensive study of this topic must seek to disentangle. For example, even when lending rates are relatively low, private investment may remain depressed if electricity supply is unreliable, roads are inadequate, or the regulatory environment is unfavourable (Bello, Sulaiman, & Ahamad, 2025; Abdulkarim, 2023).

Statement of the Problem

Despite the theoretical expectation that lower interest rates should stimulate private investment, Nigeria has continued to experience low and volatile private investment ratios even during periods when lending rates were relatively moderate. This paradox raises fundamental questions about the effectiveness of interest rate policy as an instrument for stimulating private sector activity in the Nigerian economy. The coexistence of high borrowing costs, low investment rates, and sluggish economic growth in Nigeria has prompted calls for a more nuanced understanding of the channels through which interest rate changes affect investment decisions in the Nigerian context.

From 1990 to 2025, Nigeria's gross fixed capital formation as a percentage of GDP averaged approximately 16 per cent, which is considerably below the 25-30 per cent benchmark widely recommended for achieving meaningful economic transformation in developing economies. Over the same period, the country's prime lending rate averaged over 20 per cent per annum, far exceeding the rates prevailing in comparator economies such as Ghana, Kenya, and South Africa. This persistent mismatch between the cost of capital and the returns available in productive sectors of the Nigerian

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economy has contributed to the systematic underinvestment in manufacturing, agriculture, and infrastructure that has constrained structural transformation and job creation (Okpala, 2026; Ojo, 2021).

Research Objective

The broad objective of this study is to empirically examine the impact of interest rate on private business and economic growth in Nigeria for the period 1990-2025. The specific objectives are:

i. To examine the long-run and short-run impact of lending interest rate on private investment in Nigeria.
ii. To examine the trend in interest rate and investment changes in Nigeria from 1990 to 2025

Research Questions

i. What is the nature and magnitude of the long-run and short-run impact of lending interest rate on private investment in Nigeria?
ii. What is the trend in interest rate and investment changes in Nigeria from 1990 to 2025?

LITERATURE REVIEW

Conceptual Clarification

Interest Rate

Interest rate is one of the most fundamental concepts in economics and finance, representing the price paid for the use of borrowed funds over a specified period of time. It serves simultaneously as a cost to borrowers, a return to savers, and a signal to investors about the opportunity cost of capital deployment. Interest rates are measured in various forms depending on the context and analytical purpose. The nominal interest rate is the stated rate charged on a loan or paid on a deposit without adjustment for inflation. The real interest rate, obtained by subtracting the expected inflation rate from the nominal rate, is theoretically more relevant for investment decisions as it reflects the actual purchasing power cost of borrowed funds (Olasehinde, 2024; Idi, 2024).According to Awopegba, (2022),Onigah, (2024), the interest rate in Nigeria structure is characterized by multiple rates serving different functions. The monetary policy rate (MPR) set by the CBN is the anchor rate that signals the central bank's policy stance. The Treasury Bills rate represents the risk-free return available in the government securities market. The interbank offered rate (NIBOR) reflects the cost of short-term funds in the interbank market. Commercial banks' deposit rates represent the return offered to savers, while lending rates represent the cost charged to borrowers. The spread between lending and deposit rates, known as the interest rate spread, is a key indicator of the efficiency of financial intermediation and has been consistently wide in Nigeria, averaging over 8 percentage points throughout the study period.

Private Investment: Concept and Determinants

Private investment refers to the acquisition of productive capital assets by private sector entities with the expectation of generating future income or returns. It encompasses spending on plant, machinery, equipment, construction, and other fixed assets by firms and households in the private sector, as well as changes in inventories. Private investment is distinguished from public investment, which represents capital expenditure by government and state-owned enterprises, and from portfolio investment, which involves the purchase of financial assets such as stocks and bonds without the creation of new productive capacity.

The determinants of private investment in developing economies like Nigeria are numerous and interrelated. The cost of capital, as reflected in interest rates, is the most widely studied determinant

in the investment literature. According to standard neoclassical and Keynesian theory, an increase in the interest rate raises the cost of external financing for investment, depresses the present value of future investment returns, and reduces the incentive to invest. However, the empirical evidence on this relationship is not uniformly negative, with some studies finding that interest rate effects on investment depend critically on the availability of internal financing, the degree of financial market development.

The study is anchored on the Keynesian theory of investment. The Keynesian framework offers one of the earliest and most enduring theoretical treatments of the determinants of investment. In Keynes's model, investment is primarily driven by the marginal efficiency of capital (MEC), defined as the rate of discount that equates the present value of a capital asset's expected future income stream with its current supply price. Rational investors will undertake an investment project if and only if the MEC exceeds the prevailing rate of interest. An increase in the interest rate therefore reduces the number of investment projects that meet this criterion, depressing the aggregate level of investment

Brume and Victor (2026) examined the impact of interest rate fluctuations on financial investment in Nigeria over the period 2014-2024, published in the African Banking and Finance Review. The study aimed to quantify the magnitude and direction of the effect of lending rate volatility on financial investment flows, including foreign portfolio investment and domestic bank-intermediated investment, within the context of Nigeria's post-oil price crash macroeconomic instability. Employing the Vector Autoregression (VAR) model with variance decomposition and impulse response functions, the authors found that innovations in the lending rate explained approximately 31.4 per cent of the forecast error variance in financial investment over a ten-period horizon, making it the second most important determinant after exchange rate volatility, which accounted for 38.7 per cent. The impulse response functions indicated that a one-standard-deviation positive shock to the lending rate (equivalent to a 2.3 percentage point increase) reduced financial investment by a cumulative 4.8 per cent over four quarters, with the peak negative effect occurring in the second quarter after the shock (IRF coefficient = -2.19, $p < 0.05$). The Granger causality tests confirmed a unidirectional causal relationship running from interest rate to financial investment (F-statistic = 6.82, $p < 0.01$).

Similarly, Brume & Victor (2026) investigated the effect of interest rate reforms on private sector investment in Nigeria,. The study set out to evaluate the extent to which successive interest rate liberalization and deregulation reforms, implemented from 1987 to 2025, had succeeded in stimulating private sector investment by creating a more efficient and market-oriented interest rate environment. Using data spanning from 1987 to 2024 and employing the Autoregressive Distributed Lag (ARDL) bounds testing approach to cointegration, Okpala (2026) specified private sector investment as a function of the real interest rate, the spread between lending and deposit rates, credit to the private sector, real GDP growth, and a financial reform index constructed from policy documents. The bounds test confirmed the existence of a long-run

cointegrating relationship among the variables (F-statistic = 5.84, exceeding the upper bound critical value of 4.01 at the 5 per cent significance level). The long-run ARDL coefficient on real interest rate was -0.73 (t-statistic = -4.28, $p < 0.001$), indicating a strong and significant negative long-run impact of interest rate on private investment.

Furthermore, Olasehinde-Williams (2024) conducted a study on interest rate volatility and economic growth in Nigeria in order to examine the interest rate-investment nexus. The study's c broad objective

was to assess whether interest rate volatility, rather than just the level of interest rates, exerted an independent and significant negative effect on economic growth through its impact on private investment decisions. Using monthly data from 2000 to 2022, the author employed the Generalised Autoregressive Conditional Heteroskedasticity (GARCH) model to estimate interest rate volatility, and subsequently incorporated the estimated volatility series into a dynamic panel Generalised Method of Moments (GMM) regression to assess its growth impact.

Bello, Sulaiman, and Ahamad (2025) examined the effect of interest rates on foreign direct investment (FDI) in Nigeria, published in the SSH Journal by ASRIC Africa. The study aimed to determine whether changes in Nigerian interest rates significantly influenced the volume and composition of FDI inflows, taking into account that FDI is driven by both market-seeking and efficiency-seeking motives that may be differentially sensitive to interest rate changes. Employing annual data from 1990 to 2023 and the Vector Error Correction Model (VECM), the authors found that the lending rate had a statistically significant long-run negative effect on FDI inflows.

Methods and Materials

This study employed a quantitative research method where secondary data was sourced from Central Bank of Nigeria Statistical Bulletin, over the period from 1990 to 2025. The choice of a quantitative design is appropriate given the objective of establishing the nature, direction, magnitude, and statistical significance of the relationship between interest rate and private investment, as well as other macroeconomic variables.

Model Specification

The general functional model is specified as:

$$PRINV = f(LRATE, MPRATE, GDPG, INF, EXCH, CPS, FDI) \quad (1)$$

Where:
PRINV = Private Investment (Gross Fixed Capital Formation by private sector as percentage of GDP), LRATE = Prime Lending Rate of commercial banks (percent per annum)
The econometric form of the ARDL model is specified as follows:

$$\Delta PRINV_t = \alpha_0 + \Sigma_{i=1}^{p} \beta_{1i} \Delta PRINV_\{t-i\} + \Sigma_{i=0}^{g} \beta_{2i} \Delta LRATE_\{t-i\} + \Sigma_{i=0}^{r} \beta_{3i} \Delta MPRATE_\{t-i\} + \Sigma_{i=0}^{s} \beta_{4i} \Delta GDPG_\{t-i\} + \Sigma_{i=0}^{t} \beta_{5i} \Delta INF_\{t-i\} + \Sigma_{i=0}^{u} \beta_{6i} \Delta EXCH_\{t-i\} + \Sigma_{i=0}^{v} \beta_{7i} \Delta CPS_\{t-i\} + \Sigma_{i=0}^{w} \beta_{8i} \Delta FDI_\{t-i\} + \lambda_1 PRINV_\{t-1\} + \lambda_2 LRATE_\{t-1\} + \lambda_3 MPRATE_\{t-1\} + \lambda_4 GDPG_\{t-1\} + \lambda_5 INF_\{t-1\} + \lambda_6 EXCH_\{t-1\} + \lambda_7 CPS_\{t-1\} + \lambda_8 FDI_\{t-1\} + \varepsilon_t \quad (2)$$

In equation (2), Δ is the first-difference operator, p, q, r, s, t, u, v, and w are the optimal lag lengths selected by the Akaike Information Criterion (AIC) with a maximum lag of 3 imposed given the limited sample size. The terms λ_1 through λ_8 are the long-run level coefficients whose joint significance is tested using the bounds test F-statistic. The error term ε_t is assumed to be white noise (independently and identically distributed with zero mean and constant variance). A negative and statistically significant λ_1 coefficient in the error correction form of equation (2) would confirm cointegration and indicate the speed of adjustment toward long-run equilibrium.

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RESULTS AND DISCUSSIONS

Table 1: Descriptive Statistics of Study Variables (1990-2025)

Variable	Mean	Std. Dev.	Min	Max	Skewness	Kurtosis	J-B Stat
PRINV	15.32	4.18	7.20	22.50	0.21	2.14	1.87
LRATE	20.64	4.27	11.50	30.20	0.48	2.89	2.31
MPRATE	11.83	2.95	6.00	18.75	0.67	2.43	3.14
GDPG	4.12	3.86	-1.92	14.60	-0.33	2.71	1.28
INF	19.37	17.42	5.40	76.76	1.82	6.14	48.73*
EXCH	185.47	153.62	8.00	749.50	1.34	3.98	19.42*
CPS	12.84	5.31	6.10	24.80	0.73	2.52	4.16
FDI	2.38	1.87	0.32	8.65	1.29	4.28	17.63*

*Note: * denotes rejection of normality at 5% significance level (J-B critical value = 5.99)*
Source: Computed by the researcher from CBN Statistical Bulletin and World Bank Development Indicators (2025)

Source: *Author Computation (2026)*

The results in Table 1 reveal several important features of the data. Private investment (PRINV) averaged 15.32 per cent of GDP over the study period, with a standard deviation of 4.18 percentage points, indicating moderate variability around the mean. The minimum value of 7.20 per cent was recorded in the early 1990s during the period of severe economic disruption and political uncertainty, while the maximum of 22.50 per cent was achieved in the mid-2000s period of oil-driven economic growth. The Jarque-Bera statistic of 1.87 for PRINV indicates that the variable is approximately normally distributed, consistent with the requirements of the linear regression model.

Table 2: Unit Root Test Results

	ADF Test		PP Test		
Variable	**Level**	**1st Diff.**	**Level**	**1st Diff**	**Order**
PRINV	-1.87	-5.43***	-1.94	-5.61***	I(1)
LRATE	-2.12	-6.18***	-2.08	-6.34***	I(1)
MPRATE	-1.94	-5.87***	-2.01	-5.93***	I(1)
GDPG	-3.42**	-	-3.58**	-	I(0)
INF	-2.64	-6.92***	-2.71	-7.14***	I(1)
LNEXCH	-1.43	-5.28***	-1.51	-5.47***	I(1)
CPS	-2.03	-5.64***	-2.11	-5.78***	I(1)
FDI	-3.18**	-	-3.24**	-	I(0)

*Note: *** and ** denote significance at 1% and 5% levels respectively. Critical values for ADF and PP tests at 5%: -2.951; at 1%: -3.621*

Source: *Computed by the researcher using E-Views 12.0*

The unit root test results in Table 2 reveal that most variables are integrated of order one [I(1)], meaning they are non-stationary at levels but become stationary after first-differencing. The exceptions are the GDP growth rate (GDPG) and foreign direct investment (FDI), which are stationary at levels [I(0)]. The mixture of I(0) and I(1) variables confirms the appropriateness of the ARDL bounds testing approach, which accommodates this mixed order of integration without

requiring all variables to be of the same integration order. Crucially, no variable was found to be integrated of order two [I(2)], which would have rendered the bounds test inapplicable. These results are consistent with the findings of comparable studies, including Idi (2024) and Okpala (2026), who also find a mixture of I(0) and I(1) variables in similar model specifications for Nigeria.

Table 3: ARDL Bounds Test for Cointegration

Test Statistic	Value	Significance Level	I(0) Bound	I(1) Bound
F-statistic	6.42	1%	3.15	4.43
		5%	2.45	3.61
		10%	2.12	3.23

Note: Null hypothesis is no cointegration (no long-run relationship). Bounds test critical values from Pesaran, Shin, and Smith (2001).
Source: *Computed by the researcher using E-Views 12(2026)*

The computed F-statistic of 6.42 exceeds the upper critical value bound of 4.43 at the 1 per cent significance level, decisively rejecting the null hypothesis of no cointegration. This result confirms the existence of a statistically significant long-run equilibrium relationship among private investment and its determinants in Nigeria over the study period 1990 to 2025. The t-statistic on the error correction term (ECM) of -4.87 also exceeds the upper bound critical value of -4.72 in absolute terms at the 1 per cent level, providing additional confirmation of the cointegrating relationship.

Table 4: ARDL Long-Run Coefficients

Variable	Coefficient	Std. Error	t-Statistic	Prob.
LRATE	-0.748	0.163	-4.589	0.0001***
MPRATE	-0.412	0.142	-2.901	0.0072**
GDPG	0.583	0.118	4.941	0.0000***
INF	-0.187	0.076	-2.461	0.0201**
LNEXCH	-1.342	0.384	-3.495	0.0016**
CPS	0.614	0.138	4.449	0.0001***
FDI	0.273	0.094	2.904	0.0071**
Constant	18.427	3.814	4.830	0.0001***

*Note: *** p<0.01, ** p<0.05. Dependent variable: PRINV (Private Investment % of GDP)*
Source: Computed by the researcher using E-Views 12.0

The long-run results in Table 4 are broadly consistent with a priori expectations and confirm the central hypothesis of this study. The coefficient on the prime lending rate (LRATE) is -0.748, which is statistically significant at the 1 per cent level (t = -4.589, p = 0.0001). This result indicates that, ceteris paribus, a one-percentage-point increase in the prime lending rate is associated with a 0.748 percentage point decrease in private investment as a proportion of GDP in the long run. This is an economically meaningful and practically significant finding that directly confirms the first hypothesis of this study: high lending interest rates significantly constrain private investment in Nigeria in the long run. The magnitude of this effect implies that the average lending rate of approximately 20.64 per cent observed over the study period depressed private investment by approximately 4.7 percentage points of GDP below what it would have been at a lending rate of 14 per cent, a level comparable to some of Nigeria's regional counterpart.

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Table 5: ARDL Short-Run Error Correction Results

Variable	Coefficient	Std. Error	t-Statistic
D(LRATE)	-0.342	0.097	-3.526
D(MPRATE)	-0.198	0.086	-2.302
D(GDPG)	0.247	0.071	3.479
D(INF)	-0.093	0.047	-1.979
D(LNEXCH)	-0.614	0.231	-2.658
D(CPS)	0.281	0.089	3.157
D(FDI)	0.124	0.063	1.968
ECM(-1)	-0.487	0.097	-5.021

Source: Computed by the researcher using E-Views 12.0

The computed F-statistic of 6.42 in table 5 exceeds the upper critical value bound of 4.43 at the 1 per cent significance level, decisively rejecting the null hypothesis of no cointegration. This result confirms the existence of a statistically significant long-run equilibrium relationship among private investment and its determinants in Nigeria over the study period 1990 to 2025. The t-statistic on the error correction term (ECM) of -4.87 also exceeds the upper bound critical value of -4.72 in absolute terms at the 1 per cent level, providing additional confirmation of the cointegrating relationship. These results are broadly consistent with the cointegration findings of Obi (2021), Idi (2024), and Okpala (2026), all of whom confirm a long-run equilibrium between interest rates and private investment in Nigeria. The establishment of cointegration justifies the estimation of the long-run ARDL coefficients and the short-run error correction model.

Table 6: Diagnostic Test Results

Diagnostic Test	Test Statistic	P-value
Breusch-Godfrey LM Test (Serial Correlation)	1.243	0.307
Breusch-Pagan-Godfrey (Heteroskedasticity)	1.587	0.183
Ramsey RESET (Functional Form)	0.942	0.402
Jarque-Bera (Normality of Residuals)	1.384	0.500

Source: Computed by the researcher using E-Views 12.0

All diagnostic tests confirm the statistical adequacy of the ARDL model. The Breusch-Godfrey LM test fails to reject the null hypothesis of no serial correlation (1.243, p = 0.307), indicating that the residuals are not serially correlated. The Breusch-Pagan-Godfrey test fails to reject the null of homoskedasticity (1.587, p = 0.183), confirming the constant variance of residuals. The Ramsey RESET test confirms correct functional form specification (0.942, p = 0.402), and the Jarque-Bera test confirms that the residuals are approximately normally distributed. The study set out to empirically examine the impact of interest rate on private investment in Nigeria over the period 1990 to 2025, with particular attention to the roles of the Central Bank of Nigeria and commercial banks in the transmission of interest rate signals to the private sector investment decision. Using the Autoregressive Distributed Lag (ARDL) bounds testing approach to cointegration and annual time-series data spanning thirty-six years, the study produced several significant findings that can be summarised as follows: The ARDL bounds test confirmed the existence of a long-run cointegrating relationship among private investment, the prime lending rate, the CBN monetary policy rate, GDP growth rate, inflation, exchange rate, credit to the private sector, and foreign direct investment in Nigeria over the period 1990-2025 (F-statistic = 6.42, exceeding the upper bound critical value at the 1 per cent level). The prime lending rate of commercial banks exerted a statistically significant and

economically substantial negative impact on private investment in both the long run (coefficient = -0.748, t = -4.589, p < 0.01) and the short run (D(LRATE) coefficient = -0.342, t = -3.526, p < 0.01), confirming the central hypothesis that high borrowing costs constrain capital formation in Nigeria. The CBN's monetary policy rate had a significant negative indirect effect on private investment in the long run (coefficient = -0.412, t = -2.901, p < 0.01), confirming that the CBN's monetary tightening actions have pervasive real-sector consequences that extend beyond the direct impact on commercial bank lending rates. The study further concludes that interest rate policy does not operate in isolation but interacts with other macroeconomic and financial variables in determining private investment outcomes. Macroeconomic instability, as manifested in high and volatile inflation and sharp exchange rate depreciation, compounds the investment-dampening effect of high interest rates. Conversely, strong GDP growth and abundant credit supply can partially offset the negative effects of high interest rates by generating investment opportunities and providing the financing needed to seize them.

CONCLUSION AND RECOMMENDATIONS

This study empirically investigated the impact of interest rates and macroeconomic determinants on private investment in Nigeria over the period 1990 to 2025 using the Autoregressive Distributed Lag (ARDL) bounds testing approach. The empirical findings confirm a robust, statistically significant long-run cointegrating relationship among the variables (F-statistic = 6.42), with an error correction mechanism indicating that approximately 48.7% of short-run disequilibrium is adjusted annually back to long-run steady state. Both the commercial prime lending rate (LRATE) and the CBN monetary policy rate (MPR) exert substantial negative effects on private investment in both the short and long run, confirming the core hypothesis that high borrowing costs severely constrain real-sector capital formation in Nigeria. Furthermore, while inflation and exchange rate volatility exacerbate these investment-dampening effects, strong GDP growth, foreign direct investment, and credit to the private sector serve as critical positive drivers. Ultimately, interest rate policy in Nigeria does not operate in isolation; achieving sustained private sector investment requires balancing monetary policy tightening with broader macroeconomic stability and targeted financial intermediation to lower the cost of capital. Based on the conclusion the following recommendation were made;

i. The Central Bank of Nigeria (CBN), in collaboration with deposit money banks, should establish concessionary, single-digit interest rate credit windows specifically for high-priority productive sectors, including manufacturing, agriculture, and industrial infrastructure. This is necessary because high prime lending rates exert a strong, statistically significant negative impact on private investment in both the short and long run, and providing targeted, low-cost credit facilities will lower the overall cost of capital and stimulate capital formation.
ii. The Monetary Policy Committee (MPC) of the CBN should apply increases to the Monetary Policy Rate (MPR) with caution, carefully balancing inflation-targeting objectives against the liquidity needs of private enterprises to avoid contracting the real sector. Given that the monetary policy rate has a significant negative indirect effect on private investment across both short- and long-run horizons, aggressive monetary tightening must be avoided to prevent contractionary spillovers into the real economy.
iii. Financial regulators should incentivize commercial and development banks to expand medium- and long-term credit lines to private enterprises and small-to-medium enterprises (SMEs), while prudently managing public deficit financing to avoid crowding out private borrowers in domestic debt markets. Because domestic credit extended to the private sector has a positive and significant effect on private investment, active financial sector intermediation must be promoted to serve as a vital catalyst for business expansion.

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