

# Domestic Investment and Its Role in Economic Output of Nigeria (2000-2024)

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## ABSTRACT

Nigeria is endowed with abundant human and natural resources, but investment levels have been relatively low and volatile, undermining the economy's productive base. Using ex-post-facto research design and ordinary least square research estimation technique, the study examined domestic investment and its role in improving the level of economic outputs of Nigeria for the period 2000 to 2024. The dependent variable economic output was represented with Real Gross Domestic Product (RGDP) while the independent variables include Domestic Portfolio Investment (DPI), Corporate Domestic Private Investment proxied by Banking Sector Credit to Private Sector (BCPS), and Gross Fixed Capital Formation (GFCF). The data were sourced from the Central Bank of Nigeria Statistical Bulletin and analyzed using the Ordinary Least Square regression technique. The result showed that corporate domestic private investment proxied by bank credits to private sectors (BCPS) was positive and significant, it grew the RGDP significantly by 0.2110. The coefficient of Gross fixed capital formation (GFCF) and domestic portfolio investment (DPI) were positive but statistically insignificant, they increased RGDP by 0.1576 and 0.0138 respectively. The study also found a joint significant effect of the variables on RGDP. From the findings, the study concludes that domestic investments play key roles in growing the national output of Nigeria and recommended that government should intensify efforts to further encourage the domestic investors through enacting favorable policies and giving the private sector adequate financial support in order to enhance their domestic investment capacity.

**Keywords:** Domestic Investment, Domestic Portfolio Investment, Economic Output, Fixed Capital Formation, Bank Lending to Private Sector

## INTRODUCTION

Domestic Investment refers to the expenditure by local businesses and government on capital goods (machinery, infrastructure, factories) that increase production capacity. Domestic investment stands as a vital factor and a key determinant of economic outputs (aggregate output or national output) for all nations. It positively influences several macroeconomic indicators, such as reducing unemployment, alleviating poverty, enhancing productivity, increasing export value to improve the trade balance, mitigating debt burdens, and fostering economic growth overall (Bakari & El Weriemmi, 2022). Investment has long been recognized as a catalyst for improving economic outputs and economic growth. Classical and modern growth theories emphasize the importance of capital accumulation in driving production, employment, and long-term prosperity in an economy. According to Yedder, Weriemmi and Bakari (2023) these investments allow the establishment of local businesses that require labor, which reduces unemployment and improves the living conditions of the population, in addition, domestic investments in infrastructure, technology and worker training help increase productivity within firms. This allows developing countries to produce more goods and services, which stimulates economic growth. Domestic investment is an expenditure made to increase the total capital stock in the economy. This is done by acquiring further capital-producing assets and assets that can generate income within the domestic economy (Nwaeke, 2023). Domestic investment (DI) is a critical driver of economic growth, facilitating capital formation, job creation, and increased productivity, which boost GDP. By investing in infrastructure, technology, and human capital, nations foster local business growth, improve competitiveness, reduce poverty, and sustain long-term economic development. The primary economic goal of all nations, both developing and developed, is sustained

growth of the manufacturing, industrial, services and agricultural sectors. To effectively compete on the global stage, countries must actively manufacture items that are either consumed inside the country or exported to generate foreign exchange earnings (Obayori et al., 2018). Domestic Investment is an essential economic activity that governments prioritize as a critical element of national economic growth and a crucial driver of the economic cycle (Bakari and Mabrouki, 2017). In Nigeria, there is need to bridge industrial and infrastructural gaps, reduce poverty and unemployment level, domestic investment plays a great role in achieving these needs.

Real gross domestic product (RGDP) is the total value of all goods and services produced by an economy, adjusted for inflation (Akhilesh Ganti, 2026), it shows actual changes in production quantity over time. RGDP measures the true economic output and shows if the economy actually grew. In other words, RGDP is the inflation-adjusted value of aggregate output, used as a proxy for national output (economic output) and economic growth (RGDP growth rate). Domestic investment directly drives real gross domestic product (RGDP) expansion by increasing capital formation, boosting production capacity, and creating local employment. Purchasing of machineries, tools, and building factories directly expands the nation's productive capacity. Local spending by investors can circulates through the economy and raise aggregate demand and RGDP. Employing local workers increases household disposable income and consumer spending. Investing in roads, power supply, and transport lowers operational costs and increase output for all businesses.

Domestic portfolio investment in Nigeria has become the dominant force in the local capital market, accounting for approximately 85–87% of total transactions, largely overtaking foreign portfolio investment. Driven by strong local participation, particularly in equities and fixed income, domestic investors injected ₦4.73 trillion in 2024, providing significant market liquidity despite high inflation. According to Tunji (2025) while foreign investors engaged the Nigerian market with cautious optimism, domestic investors crowded the market with significant liquidity. Local investors accounted for 85% of total equity transactions, as total domestic portfolio investment reached ₦4.73 trillion, up from ₦3.17 trillion in 2023. Retail and institutional investors dominated the market as monthly inflows remained consistently high, ranging from ₦598 billion in January to ₦607 billion in December. These numbers indicate that there was notable domestic capital resilience despite persistent inflation. Domestic credit to private sector by banks refers to financial resources provided to the private sector by other depository corporations (deposit taking corporations except central banks), such as through loans, purchases of non-equity securities, and trade credits and other accounts receivable, that establish a claim for repayment. For some countries these claims include credit to public enterprises. This indicator is expressed as a percentage of Gross Domestic Product (GDP) which is the total income earned through the production of goods and services in an economic territory during an accounting period. Bank credits to the private sector represents financial resources provided by banks (loans, trade credits, securities) to non-governmental entities, vital for economic growth and job creation. In Nigeria, this credit surged by 75.9% in two years, reaching ₦117.7 trillion in September 2025, reflecting enhanced liquidity and business financing demand. Gross Fixed Capital Formation (GFCF) is a key measure of domestic investment in Nigeria, GFCF comprises of infrastructure, machinery, and construction, it was approximately 33.11% of GDP in 2021. While vital for economic growth, GFCF is often constrained by low savings, high consumption, and capital flight, making it a critical component of Nigeria's development.

## Statement Of the Problem

Though the country is endowed with abundant human and natural resources, but the economy is heavily dependent on revenue from oil exports, exposing it to external oil price shocks. Investment levels in Nigeria have been relatively low and volatile, undermining the economy's productive base. According to the World Bank (2022), gross fixed capital formation in Nigeria has averaged less than 20% of GDP, compared to over 25% for many emerging economies. the performance of domestic investment in Nigeria has been inconsistent. During oil booms, investment spending increased, but these gains were often eroded during oil price collapses. Structural adjustment programs of the 1980s and 1990s were aimed at encouraging private sector investment, but weak infrastructure, policy instability, and corruption limited their effectiveness. CBN (2022) Statistical Bulletin and World Bank (2022) World Development Indicators, reveal that Nigeria's investment-to-GDP ratio has consistently lagged behind the levels observed in rapidly growing emerging economies. CEIC (2025) Nigeria's investment-to-GDP ratio (gross capital formation) was approximately 23.7% in December 2024, representing a

slight decrease from 25.3% in 2023, with an average ratio of 27.6% since 1981. While overall investment has shown volatility, with highs near 39% in early 2023. Given these realities, there is a need to critically examine the effect of domestic investment on economic output in Nigeria. This study aims to provide empirical and statistical evidence that will guide policymakers in strengthening domestic capital formation, domestic portfolio investment and lending to private sectors as a foundation for sustainable economic output growth.

Empirical evidence in Nigeria also shows the importance of investment for improving national output and economic growth. According to Sanda Maryam Adamu (2026) Poor governance or misplaced public spending can result in a weak or negative statistical impact of domestic investment on RGDP and high inflation and volatile exchange rates can erode the real value of domestic capital formation. Oyinlola and Adeniyi (2010) highlighted that domestic capital formation contributes significantly to output growth, though institutional bottlenecks hinder its full impact. Domestic investment, which reflects local resource mobilization and confidence in the economy, has been under-researched despite its potential for broad-based development. This work seeks to ascertain the extent to which domestic investment drives national output (Real Gross Domestic Product) in Nigeria using an annual time series data from 2000 to 2024.

## Research Objectives

The overall objective of this study is to examine the impact of domestic investment on Nigeria's economic outputs. The specific objectives are;

1. To Examine the effect of Banking Sector Lending to Private Sector on Real Gross Domestic Product of Nigeria
2. To Ascertain the impact of Gross Fixed Capital Formation on Real Gross Domestic Product in Nigeria
3. To Assess the impact of Domestic Portfolio Investment (DPI) on Real Gross Domestic Product in Nigeria

## LITERATURE REVIEW

### Domestic Investment

Investment, in economic terms, refers to the allocation of resources, financial or otherwise into activities or assets with the expectation of generating future returns. Domestic investment refers to the total amount of capital formation undertaken within an economy by its citizens, firms, and government. According to Keynes (1936), investment is the addition to the stock of real capital in the economy, such as buildings, machinery, and infrastructure, which directly contributes to the productive capacity of a nation. It can be broadly divided into two categories: real investment and financial investment. Real investment involves expenditure on tangible assets like equipment, infrastructure, and industrial plants, while financial investment includes the purchase of securities such as stocks and bonds. The importance of investment lies in its role as a driver of economic outputs. The Harrod-Domar model emphasized that economic growth is a function of the savings and investment rate, implying that higher investment leads to faster capital accumulation and output growth (Harrod, 1939; Domar, 1946). Similarly, the neoclassical growth model (Solow, 1956) identified capital accumulation through investment as a short-term driver of growth, though technological progress sustains long-term growth.

Unlike foreign direct investment (FDI), which originates from external sources, domestic investment reflects the mobilization of local resources and confidence in national economic policies. According to the World Bank (2020), gross fixed capital formation is a standard measure of domestic investment and includes expenditure on physical assets such as infrastructure, machinery, and equipment. The role of domestic investment is central in economic development because it contributes directly to industrialization, job creation, and poverty reduction. Domestic investment (DI) is widely recognized in both theoretical and empirical literature as a key driver of productivity and economic growth, particularly in developing and fragile economies. In classical and neoclassical growth models, capital accumulation is a central pillar of economic expansion (Abdulle, A. S., Jama, M. A., & Omar, M. M., 2025). The Keynesian theory of investment stresses that higher domestic investment stimulates aggregate demand, thereby expanding output. In addition, the endogenous growth theory (Romer, 1986; Lucas, 1988) emphasizes that domestic investment in education, technology, and innovation generates

positive externalities that enhance long-term growth prospects. In the context of developing economies, domestic investment is seen as more stable than foreign investment, as it is less susceptible to external shocks and sudden capital flight.

Historically, Domestic investment in Nigeria has been influenced by oil revenues, government policies, insecurity, interest rate, inflation, institutional frameworks etc. government increased investment spending on infrastructure and public projects during oil booms, but these gains were often eroded during oil price collapse. For instance, in the early 1980s, the collapse of global oil prices led to a decline in Nigeria's domestic investment and economic contraction. The Structural Adjustment Program (SAP) was introduced in 1986 to liberalize the economy and encourage private investment. The programme was affected by high inflation, unstable exchange rates, and weak institutional frameworks. The National Economic Empowerment and Development Strategy (NEEDS) of 2004 was introduced to give a boost to infrastructural development in order to empower the private sector. The Economic Recovery and Growth Plan (ERGP) 2017-2020, The Nigerian Economic Sustainability Plan (NESP, 2020) and the most recent, Nigeria's National Development Plan (NDP) 2021–2025 attempted to promote domestic investment in non-oil sectors. Despite these efforts, Nigeria's gross fixed capital formation has remained below the global average. According to the Central Bank of Nigeria (2022) Statistical Bulletin, gross capital formation in Nigeria averaged about 15–18% of GDP over the last three decades, significantly below the 25% benchmark recommended for developing economies by the World Bank. This underinvestment is reflected in poor infrastructure, low industrial capacity utilization, and widespread unemployment.

Several empirical studies confirm these challenges. Oyinlola and Adeniyi (2010) reported that domestic investment significantly influenced growth in Nigeria, but its effectiveness was constrained by poor institutional quality and infrastructural bottlenecks. Similarly, Udoka and Anyingang (2012) emphasized that inadequate power supply, insecurity, and corruption discourage private domestic investment in Nigeria.

### **Domestic Portfolio Investment**

Domestic portfolio investments (DPI) are financial assets stocks, bonds, and mutual funds purchased by investors within their home country, focusing on local financial markets. domestic portfolio investments are investments in the form of a group (portfolio) of assets, including transactions in equity securities, such as common stock, and debt securities, such as banknotes, bonds, and debentures (World Bank, 2014). These investments provide critical liquidity, often driving market growth, as seen in Nigeria, where domestic investors account for up to 85% of total transactions (2024), dominated by institutional players. In markets like Nigeria, domestic investors provide stability and high volume, often outperforming foreign investors (by 34% in Dec 2025). Portfolios are largely structured with core stocks (50-70%), growth stocks (20-30%), and dividend-paying stocks (10-20%). Major sectors often leading domestic interest includes financial services (banking), consumer goods, and industrial goods. Domestic investors focus on instruments such as equities, Treasury bills, and mutual funds (Nigerian Exchange Group, 2025). Domestic portfolio investments, generally foster economic growth by enhancing liquidity, boosting financial market efficiency, increasing productivity and lowering capital costs for companies. Portfolio investments (stocks, bonds, mutual funds) allow companies to raise capital, enhancing their capacity for expansion, innovation, and job creation. Portfolio investment increases the efficiency of local financial intermediaries, which in turn fosters economic growth by optimizing resource allocation. Domestic private investment often has a stronger, positive, and significant impact on GDP growth compared to public investment. Empirical studies often show that private domestic investment yields a more consistent positive return on RGDP than poorly managed public projects (Mahmud Abubakar Rufa'I, 2019) Domestic financial investment, particularly within robust institutional settings, shows a positive and significant long-term effect on economic growth. While private domestic investment often provides a significant positive impact on growth, the effect of portfolio investment can vary based on market maturity and financial regulation, high dependence on natural resources can reduce the efficiency of domestic portfolio investment, limiting its positive impact on growth. While portfolio flows (both domestic and foreign) can increase market depth, they are often characterized by high volatility, requiring solid financial stability to be beneficial. fostering a stable, efficient domestic financial sector is critical to transforming both domestic and foreign portfolio investments into sustainable, long-term economic output growth.

## Gross Fixed Capital Formation

Gross fixed capital formation (GFCF) refers to the acquisition of produced assets, including purchases of second-hand assets and the production of such assets for own use, minus disposals, it covers fixed assets intended for use in the production of goods and services for more than one year. Only assets resulting from a production process are included; this excludes non-produced assets such as land and natural resources (OECD, 2025). Gross Fixed Capital Formation measures the net acquisition of fixed assets (machinery, buildings, infrastructure, intellectual property) by producers, representing long-term investment in an economy. It is a key component of GDP via the expenditure approach, reflecting productive capacity growth rather than consumption. The key Components includes machinery/equipment, transportation, residential/commercial buildings, land improvements, and intellectual property products. It drives economic growth, indicates business confidence, and improves long-term productivity. It is often expressed as a percentage of GDP to compare investment levels across countries.

## Bank Credits to Private Sector

Bank lending to the private sector generally has a positive and significant impact on economic growth by fostering business expansion, enhancing productivity, and facilitating capital accumulation. Increased credit drives economic outputs growth in both the short and long run, particularly by supporting small-scale enterprises and improving output, provided a stable financial environment exists. Loans to the private sector enable firms to invest in capital, expanding production capabilities and taking advantage of economies of scale. Private sector credit allows for business innovation and improved capacity utilization. Targeted lending to SMEs significantly improves employment and overall economic performance. Evidence suggests a sustainable long-term positive relationship, for instance, a 1% increase in private sector credit can lead to significant GDP growth. Research also indicates that credit to the private sector has a more significant positive impact on economic growth compared to credit given to the public sector. While overall lending can be positive but, the impact is usually greater when directed towards productive sectors like manufacturing and agriculture. While credit is beneficial, excessive lending rates can have a negative long-term impact on growth by stifling investment. Poorly managed credit can also impede outputs growth, highlighting the need for efficient banking and risk assessment. robust and efficient bank lending to the private sector is a critical engine for economic development, particularly in developing economies, as it drives productive economic activities. According to Amali E and Ejila S. A (2023) the importance of credit in economic output growth cannot be over-emphasized. Many economic actors acquire credit to pay their operational expenditures. credit availability enables the banks' intermediation role to be fulfilled, which is critical for the economy's growth. Effective credit provisioning has a significant and positive effect on output, as indicated by a number of empirical studies; hence, an ineffective private sector credit system impedes economic output growth. Availability of investable capital, a stable and inclusive financial system are essential for financing economic projects and activities that support output growth and development. This is because credit improves a company's productive capability and growth potential (Olowofeso et al., 2015)

## Nigerian Economic Output Growth

The Nigerian economy experienced periods of rapid growth in the 1970s due to oil windfalls, but growth slowed in the 1980s and 1990s due to declining oil revenues, political instability, and mismanagement. In the 2000s, economic reforms and debt relief contributed to renewed growth, but structural weaknesses remained. data from the World Bank (2022) and National Bureau of Statistics (NBS, 2022) indicate that while Nigeria recorded moderate growth averaging 2–3% annually over the last decade, this has been insufficient to absorb its rapidly growing population. Nigeria Bureau of Statistics shows that GDP was naira 25,169.5 billion in 2000 and naira 79,289.4 billion in year 2024. Growth was driven by services and agriculture on the supply side and by consumption and investment on the demand side. Inflation rose from 18.8% in 2022 to 24.5% in 2023, due to rising fuel costs and a depreciating naira. Petrol prices increased 167%, from naira 254 per liter in May 2023 to naira 671 in December 2023. economic growth was projected to increase to 3.2% in 2024 and 3.4% in 2025, due to improved security, higher oil production, and stronger consumer demand ( African Development Bank, 2025). The Nigerian economy in 2025–2026 is experiencing a complex mix of modest, accelerating growth driven by agriculture and services and severe cost-of-living pressures. Full Year GDP Growth in Nigeria increased to 3.90 percent in 2025 from 3.40 percent in 2024. Full Year GDP Growth in Nigeria averaged 5.19 percent from 2000

until 2025, reaching an all-time high of 14.60 percent in 2002 and a record low of -1.92 percent in 2020 (National Bureau of Statistics, 2025) Nigeria While GDP growth reached approximately 4.07% in late 2025 and grew by 4.43% year-on-year in the second quarter of 2026, building on a full-year growth of roughly 3.9% in 2025, high inflation, a volatile naira due to currency floating, and high production costs and fuel price have reduced consumer purchasing power and created profitability challenges for farmers and businesses. petroleum price rose from approximately 668 naira per liter in January 2024 to over 700 naira per liter 2025, with significant regional variations, peaking at over 100 naira in march 2026 and 1500 naira in September 2026.

The relationship between investment and national output in Nigeria has been a subject of extensive research. According to Raihan Rahmatullah and Ririt Iriani Sri Setiawati (2025) domestic investment directly drives national output by expanding a nation's productive capacity, creating jobs, and boosting aggregate demand through capital formation, DI adds to physical and intangible assets like factories and machinery and it can raise the overall production ceiling of the economy (Atuma Emeka , Odo Stephen Idenyi and Nweze Paul Nweze 2017). Iyoha (1998) and Akinlo (2004) found that inadequate domestic investment constrained Nigeria's economic performance. Bakare (2011) also stressed that the country's inability to achieve sustainable growth was largely due to weak capital formation. evidence from CBN (2022) confirms that both public and private investment remain critical for achieving Nigeria's development goals, though issues such as insecurity, weak governance, and infrastructural deficits continue to hinder progress. Nigeria's economic output growth prospects depend significantly on strengthening domestic investment. By mobilizing local resources and channeling them into productive sectors such as manufacturing, agriculture, and services, Nigeria can reduce its dependence on oil and achieve more inclusive and sustainable growth in the level of her national outputs.

## THEORETICAL FRAMEWORK

Among the most relevant theories for understanding Nigeria's case are the Harrod–Domar growth model, the Solow neoclassical growth model, and the Endogenous growth theory.

Each provides different insights into how domestic investment affects growth outcomes.

**Harrod–Domar model**, developed in the 1930s and 1940s. The model highlights the importance of increasing the volume of domestic investment in order to increase the country's savings and capital gaps. It emphasizes the role of savings and investment in driving economic growth, it believes that the growth rate of any economy depends directly on the savings rate and the productivity of capital. It posits that the higher the investments the greater the capital accumulation, which in turn stimulates output. The model suggests that developing countries like Nigeria can achieve rapid growth if domestic investment is increased significantly. However, critics argue that the Harrod–Domar framework is too simplistic as it assumes constant returns to scale and does not account for technological progress or institutional inefficiencies, which are critical issues in Nigeria's economic structure today.

**The Solow neoclassical growth model**, developed in 1950s, expanded the Harrod–Domar model. The Solow model emphasizes the limitations of relying solely on capital accumulation without investments in technology and other productive sectors. It introduced the concepts of diminishing returns to capital and the importance of technological progress. In this model, domestic investment initially drives growth by increasing the capital stock, but its effect diminishes over time unless it is complemented by improvements in technology and labor productivity (Solow, 1956). The long-run growth of an economy therefore, depends not just on capital accumulation but also on technological progress. In simple term, the model believes that while increases in domestic investment can raise output in the short run, persistent challenges such as inadequate infrastructure, low technological adoption, and weak human capital can affect the long-term impact.

**The Endogenous growth theory**, developed in the 1980s and 1990s by Romer (1986) and Lucas (1988). the Endogenous growth theory underscores the importance of human capital, innovation, and policy choices in determining whether domestic investment can generate sustainable, long-term economic growth. The model emphasizes the role of internal factors such as human capital development, knowledge creation, and innovation in sustaining long-run growth. Unlike the Solow model, which treats technological progress as exogenous, the endogenous growth framework posits that policies and investments within an economy can influence the pace

of technological advancement. Domestic investment, when directed towards education, research and development (R&D), and infrastructure, can boost productivity and sustain growth.

these theories are important in this study because Nigeria has vast natural resources and potential for improving the national output and economic growth. However, underinvestment in infrastructures, poor policies and insecurity have limited the ability of domestic investment to increase economic outputs and translate into innovation-led growth. These theories imply that unless Nigeria looks inwards, strengthens its institutional frameworks, improve its capital stock and savings and redirects investment towards priority sectors, the economy will remain dependent on volatile oil revenues and low-productivity activities.

## EMPIRICAL REVIEW

Numerous studies highlighted the relationship between domestic investment (DI) and Economic Growth.

Yeboah (2025) employed the Pooled Mean Group Autoregressive Distributed Lag (PMG-ARDL) approach on annual time-series data (1995–2022) to analyze the effects of foreign direct investment (FDI), domestic investment, and trade on economic growth in Estonia, Latvia, and Lithuania. The findings revealed that FDI boosts growth in the short run but harms it in the long run. Domestic investment supports long-term growth, whereas domestic savings promote long-term growth but hinder it in the short term.

Çolak (2025) examined the relationship between savings, investment, and economic growth, highlighting its importance for shaping effective economic policies in developing countries. Using annual panel data from 1995 to 2021, the study explores the dynamic link between domestic savings, investment, and economic growth in Eastern European economies. By applying the CS-ARDL model, the research confirms a long-term connection, identifying savings and investment as key drivers of growth.

Hassan and Warsame (2024) confirmed that DI contributes positively to both short- and long-term growth, with FDI and exports also showing long-run significance. However, their analysis did not employ the ARDL model, which better accounts for Somalia's small sample size and structural breaks.

Bakari and El Weriemmi (2024) discovered that while DI boosts short-term economic improvement in Arab nations, long-term effects are impeded by poor management and governance, highlighting the necessity for enhanced investment strategies.

Ogunyomi-Oluyomi et al. (2023) conducted research about the domestic investment-economic growth connection in 5 African states during 1970–2019 by adapting absorptive capacity theory. Financial growth and infrastructure development produce immediate positive results yet long-term benefits depend heavily on open trade policies. According to the research domestic investment fails to achieve its entire potential because of constraints within the absorptive capacity framework that includes infrastructure quality and bank system effectiveness. Research shows that economic sustainability in Africa requires boosting domestic investment together with structural change implementation.

Ben Yedder et al. (2023) analyzed the role of patents in the MENA region's GDP growth and real estate reinvestment from 1998 to 2022. The research indicated that, while DI exerts a substantial influence in driving economic growth, patents had little to no significant effect on GDP growth or real estate reinvestment in this context. These findings challenge the assumption that intellectual property, such as patents, is always a major contributor to economic progress.

Fadhilah et al. (2023) analyzed the influence of DI and foreign investments on Indonesia's economic growth consuming multiple linear regression from 2012 to 2021 and demonstrated that DI has a much stronger and more substantial effect on economic growth compared to foreign investment.

Tougem et al. (2022) explored how Domestic Investment (DI) and Foreign Direct Investment (FDI) have influenced economic development in Cameroon from 1990 to 2018 and demonstrated that DI positively contributes to economic growth, while FDI supports financial development.

Chinwoke and Victor (2022) studied the correlation between direct investment, domestic savings, and economic growth in Nigeria from 1981 to 2020, utilizing the Harrod-Domar growth theory and neoclassical growth model. The study revealed that savings beneficial impact economic growth, whereas domestic investment reveals an undesirable connection with GDP per capita growth.

Using the ARDL model, Ogunjinmi (2022) investigated the impact of domestic investment on economic growth in Nigeria from 1981 to 2019. The study found a long-run relationship between investment and growth. However, while investment negatively affects growth in the short run, its long-run impact was statistically insignificant.

Zaharudin and Jalil (2022) observed the interplay between FDI, DI, trade openness, and GDP in Malaysia From 1979 to 2019,. and concluded that policies promoting both DI and FDI are essential for long-term growth, with DI possessing a more substantial advantage for expansion than FDI.

Bakari and Bouchoucha (2021) examined Tunisia's economy from 1976 to 2017 and concluded that both DI and FDI exerted a detrimental impact on sustained development, primarily due to structural challenges, but identified DI as a key short-term driver.

Oli and Xie (2021) demonstrated that in Nepal, DI and domestic savings positively affected short-term economic growth, with gradual adjustments toward long-term equilibrium.

Kurbanov (2020) found a significant two-way link between DI and GDP in Uzbekistan, where DI outperformed FDI in propelling economic growth. Across these studies, the recurring theme is that DI has an affirming effect on economic growth.

Ewubare and Worlu (2020) investigated the Effect of Domestic Investment on Economic Growth in Nigeria (1990 2017) using ordinary least square technique (OLS) technique. The results from the study revealed that neither domestic investment in the manufacturing sector, domestic investment in the service sector or domestic investment in the agricultural sector impacted significantly on economic growth (indexed by GDP growth rate).

Bakari et al. (2019) studied the link among DI, merchandise shipped, imports, and GDP in Brazil utilizing the Vector Error Correction Model (VECM) from 1970 to 2017. The research identified DI, exports, and imports as essential factors in short-term economic growth, with economic expansion further enhancing exports. Over time, DI and exports contributed positively to growth, whereas imports had a detrimental influence.

Onochie et al. (2019) determined that domestic investment had a modest but beneficial effect on GDP progression in Nigeria between 1981 and 2017.

Emmanuel and Kehinde (2018) examined the effect of FDI and domestic investment (DI) on economic growth in sub-Saharan Africa for the period of 1990 and 2003, utilizing ordinary least square (OLS) models with constant impacts and revealed that domestic investment played a more significant role in driving economic growth compared to foreign direct investment.

Empirical reviews showed different evidence which are that: domestic investment contributes positively to GDP level and economic growth especially when it is driven by the private sector and that economic growth is dependent on macroeconomic stability, institutional frameworks and infrastructure adequacy, investment fails to generate significant growth if the institutions of governance are weak, corrupt, inconsistent etc. This review provides justification for further investigation, particularly in light of Nigeria's recent economic challenges such as oil price volatility, insecurity, political instability and exchange rate fluctuations.

## METHODOLOGY

The methodology adopted in this study is the ex-post-facto design. The study used the Ordinary Least Square regression (OLS) in analyzing the secondary data. By way of modification of the specification of Ghazali (2010), we adopt real gross domestic product as a proxy for measuring economic output and use gross fixed capital formation, banking sector credit to private sector (as proxy for private investments) and domestic portfolio investment as the explanatory variables. the model is specified as

$$RGDP = F(GFCF, CPS, DPI) \dots\dots\dots(i)$$

Mathematically, we transform the Model thus:

$$\text{Log}(GDP)=\beta_0+\beta_1\text{log}(GFCF)+\beta_2\text{log}(CPS)+\beta_3\text{log}(DPI)\dots\dots\dots(ii)$$

We include the stochastic error term and transform the model into an econometric model as follow:

$$\text{Log}(GDP)=\beta_0+\beta_1\text{log}(GFCF)+\beta_2\text{log}(CPS)+\beta_3\text{log}(DPI) + et\dots\dots\dots(iii)$$

Where:

RGDP = Real Gross Domestic Product, proxy for economic growth (dependent variable)

CPS = Corporate domestic private investment (proxy by banking sector credit to private sector). GFCF = Gross Fixed Capital Formation (investment in fixed assets).

DPI = Domestic Portfolio Investment

$b_0$  = the intercept of the relationship in the model.

$b_1$ - $b_3$  = the coefficients of each of the independent variables

et = Error term

## DATA ANALYSIS AND DISCUSSION OF RESULTS

Table 4.1: Summary of the Unit Root Test (non-logged variables)

| Variables | ADF<br>T-statistics<br>@Level | 5% Critical<br>Value | Prob.<br>value | Lag value | Deterministic<br>term | Remark          |
|-----------|-------------------------------|----------------------|----------------|-----------|-----------------------|-----------------|
| RGDP      | -3.135312                     | -2.998064            | 0.0378         | 0         | Constant              | Stationary I(0) |
| GFCF      | -3.716196                     | -3.020686            | 0.0122         | 0         | Constant              | Stationary I(0) |
| CPS       | 6.171890                      | -2.991878            | 1.0000         | 0         | Constant              | Not stationary  |
| DPI       | 6.107037                      | -2.991878            | 1.0000         | 0         | Constant              | Not stationary  |

Source: Extracted from Eviews 10 Output

The result of unit root test conducted for each of the variables at levels of the non- logarithm of each of the variables, the lag value was based on Akaike info criterion. The result shows that GDP and GCFC are stationary at level and are said to be integrated of order zero i.e. I(0) while CPS and DPI are non-stationary.

Table 4.1: Summary of the Unit Root Test (logged variables)

| Variables | ADF<br>T-statistics | 5% Critical<br>Value | Test        | Prob.<br>value | Lag<br>Length | Deterministic term    | Remark          |
|-----------|---------------------|----------------------|-------------|----------------|---------------|-----------------------|-----------------|
| lnRGDP    | -5.427424           | -2.991878            | @level      | 0.0002         | 0             | Constant              | Stationary I(0) |
| lnGFCF    | -6.658922           | -3.622033            | @level      | 0.0001         | 1             | Constant linear trend | Stationary I(0) |
| lnCPS     | -3.405276           | -2.998064            | @first diff | 0.0214         | 0             | Constant              | Stationary I(1) |
| lnDPI     | -3.382239           | -2.998064            | @first diff | 0.0225         | 0             | Constant              | Stationary I(1) |

Source: Extracted from Eviews 10 Output

The result of unit root test conducted for each of the variables at levels and at first differencing of the natural-logarithm of each of the variables, the lag order was based on Akaike info criterion. The result shows that the natural logarithm of GDP and GCFC are stationary at level i.e I(0) while the natural logarithm of CPS and DPI

became stationary at first differencing i.e I(1) but, GCFC was stationary when the deterministic term contains a constant linear trend.

### Cointegration Test

The Johansen cointegration test uses both the Trace statistic and the maximum eigen statistic to ascertain the long run relationship between the variables.

Table 2: Summary of the Johansen Cointegration Test

| Hypothesized No of CE(s) | Eigen Value | Max-Eigen-Statistics | 0.05 Critical value | Prob   | Trace Statistics | 0.05 Critical Value | Prob   |
|--------------------------|-------------|----------------------|---------------------|--------|------------------|---------------------|--------|
| None *                   | 0.777720    | 34.58782             | 27.58434            | 0.0054 | 71.31859         | 47.85613            | 0.0001 |
| At most 1 *              | 0.628965    | 22.80355             | 21.13162            | 0.0288 | 36.73078         | 29.79707            | 0.0068 |
| At most 2 *              | 0.337900    | 9.483783             | 14.26460            | 0.2481 | 13.92723         | 15.49471            | 0.0850 |
| At most 3                | 0.175677    | 4.443444             | 3.841466            | 0.0350 | 4.443444         | 3.841466            | 0.0350 |

Extracted from Eviews10 Output

The unit root test has variables that are integrated order one, cointegration test was employed to avoid having a spurious regression and to determine whether long-run equilibrium relationship exists among the variables. The test indicates that there are 2 cointegrating equations at 5% level.

|                                                                        |
|------------------------------------------------------------------------|
| Trace test indicates 2 cointegrating eqn(s) at the 0.05 level          |
| * denotes rejection of the hypothesis at the 0.05 level                |
| **MacKinnon-Haug-Michelis (1999) p-values                              |
| Max-eigenvalue test indicates 2 cointegrating eqn(s) at the 0.05 level |
| * denotes rejection of the hypothesis at the 0.05 level                |
| **MacKinnon-Haug-Michelis (1999) p-values                              |

### Estimation of the Ordinary Least Square Model

#### Ordinary Least Square Estimation

Table 4. 3 Dependent Variable: LNGDP

| Variables          | Co-efficient | t-statistic | Probability |
|--------------------|--------------|-------------|-------------|
| C                  | 7.412583     | 6.163650    | 0.0000      |
| LNGFCF             | 0.157698     | 1.120112    | 0.2753      |
| LNCPS              | 0.210977     | 4.591738    | 0.0002      |
| LNDPI              | 0.013832     | 0.488012    | 0.6306      |
| R-Squared          | 0.967842     |             |             |
| Adjusted R-squared | 0.963248     |             |             |
| F-statistic        | 210.6740     |             |             |
| Prob(F-Statistic)  | 0.000000     |             |             |
| Durbin-Watson Stat | 2.943167     |             |             |

Extracted from Eviews10 Output

The result reveals that bank credit to the private sector (CPS) increased Nigeria's economic output (RGDP) by 0.2110 Units, this shows that for every unit increase in bank lending to the private sector, the Nigerian aggregate output increases by 0.2110 units annually. The probability value of 0.0002 shows that the increase was

significant. gross fixed capital formation (GFCF) and domestic portfolio investment (DPI) both also increased Nigeria's RGDP by 0.1576 and 0.0138 units respectively. This is a direct relationship and it entails that for every unit change in gross fixed capital formation and domestic portfolio investment; the Nigerian economic output increases by 0.1576 and 0.0138 units respectively. The probability values of 0.2753 and 0.6306 are indication that the increase in GDP growth occasioned by change in gross fixed capital formation and domestic portfolio investment was not significant. The intercept value of 7.4126 means that holding the explanatory variables constant, the Nigerian economic output will grow by 7.4126 units, all things being equal. Furthermore, the adjusted R-square shows the robustness of the model and explains the degree of fitness of the model. It is estimated at 0.9678 meaning that the domestic investment variables explain up to 97% of the changes in GDP over the period of study. The adjusted R-square which is 0.9632 i.e 96% also confirms the strong fit of the model. This is a very good fit and confirms the quality of the model. the Durbin Watson (DW) Statistic value is 2.9 which means that there is no presence of Autocorrelation in the model. the F-statistic of 210.7 confirms that the domestic investment variables (GFCF, CPS and DPI) have strong and very significant joint effect on the growth of the Nigerian economy. The p-value of 0.000000 confirms the joint significant effect of the variables.

## DISCUSSION OF FINDINGS

The findings revealed that corporate domestic private investment proxied by bank credits to private sectors was positive and significant, it grew economic outputs significantly by 0.2110. this positive effect of CPI on RGDP growth supports the findings of Amoo, Ganiyu B.A.; Eboreime, Matthew I.; Adamu, Yusuf; and Belonwu, Maximillian C. (2017) where they posit that credit is growth-enhancing, even when trade openness, monetary policy, investment climate and infrastructure are low. The coefficient of Gross fixed capital formation (GFCF) and domestic portfolio investment (DPI) were positive but statistically insignificant, they increased RGDP by 0.1576 and 0.0138 respectively. The study found a joint significant effect of the variables on economic growth accounting for up to 210.7% of the changes witnessed in the economic output (RGDP). The positive but insignificant effect of gross fixed capital formation and domestic portfolio investment on economic output within these periods of study can be said to be caused by factors such as political instability, insecurity, government policies on taxation, lack of access to affordable loan facilities, poor power supply, bad road networks etc. these explains the inability of the economy to achieve high and sustained growth rates. The implication is that while domestic investment is a key driver of RGDP growth, its potential in Nigeria has not been fully realized due to infrastructural bottlenecks, policy inconsistency, and insecurity.

This finding is consistent with the predictions of the Harrod-Domar model, which emphasizes the importance of investment in driving growth through capital accumulation. It also supports the Keynesian view, which suggests that higher investment stimulates demand and output. Empirical evidence from Nigeria and other developing economies supporting these findings are Oyedokun and Ajose (2018), Yeboah (2025) Hassan and Warsame (2024), Ben Yedder et al. (2023), Tougem et al. (2022), Chinwoke and Victor (2022) etc.

## CONCLUSION AND RECOMMENDATIONS

Evidently, domestic investment is aimed at growing the economy through increase in economic or national output. Both the private and public sector play key roles in this aspect. From the findings, the study concludes that all the domestic investment variables have positively improved the Nigerian economic output. Specifically, corporate domestic private investment proxy by credit to private sectors (CPs) has shown to have more significant effect on Nigeria's economic output growth than gross fixed capital formation (GFCF) and domestic portfolio investment (DPI). The study therefore recommends that:

1. Governments can stimulate domestic investment by adopting policies that raise demand and improve investor confidence. Stable and transparent policies, enhanced property rights, and improved security will help build investor confidence and sustain long-term expansion and productivity growth. Domestic portfolio investment should be encouraged by easing the many restrictions on trade in the Nigerian capital market.

2. The government should prioritize the provision of reliable electricity, efficient transportation systems, and modern communication facilities to reduce the cost of doing business and encourage private sector investment.
3. Nigeria must reduce its dependence on oil revenues by investing in non-oil sectors, which will not only attract more investment but also increase aggregate output, ensure inclusiveness and sustainable growth.

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