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Department of Accountancy, Enugu State University of Science and Technology.

Responsiveness of Economic Growth to Savings and Investments in Nigeria

AGU, Bertram Onyebuchi, PhD[1] & NWANKWO, Simon N.P., PhD[2]

[1 & 2] Department of Banking and Finance, Enugu State University of Science and Technology, ESUT, Enugu.
Correspondence Author: E-mail: *dragubertram@gmail.com*

Abstract: This study investigated the responsiveness of Economic Growth to Savings and Investment in Nigeria. To achieve the objectives of this study, secondary data were obtained from the Central Bank of Nigerian statistical bulletin providing record of Nigerian saving, investment and Real Gross Domestic Product (RGDP) over the period 1990-2019. The data gathered were analysed using stationarity test; co-integration and an error correction model which were estimated in order to determine the rate of response of economic growth to savings and investment in Nigeria. The result of the statistical/econometrics analysis revealed that there is a relationship between saving, investment and economic growth in Nigeria. Consequent on the above, the researcher recommended that; measures must be put in place to encourage savings from the public; effort should be made to increase the consumption of made in Nigeria goods, which includes the usage of raw materials that can be sourced locally by Nigerian industries in order to increase foreign exchange earnings.

Keywords: Savings, Investments, Domestic savings, Gross fixed capital formation Economic Growth.

1.1 Introduction:

The relationship between savings and investment in driving economic growth is currently the interest of researchers. It is a known fact that capital accumulation and savings generation can shift a nation's production possibility towards the right direction. Sustained economic growth to a large extent depends on the strength of the reinforcing relationship between savings and investment, among other factors. The level of savings and capital formation are determined by the level of income and interest rate respectively. While savings is a positive function of income, investment is a negative function of interest rate (Ojiegbe, Duruechi and Makwe, 2016).

The links between savings, domestic investment and economic growth in Nigeria are weak due largely to a number of factors which include low level of income, high lending rate, policy inconsistency, over reliance on crude oil sales for revenue, corruption, under-developed natural resources, low labour productivity and inefficiency. Others are general poverty, insufficient capital equipment, insufficient savings facilities to mobilize savings especially in the rural areas etc. All these translate to low savings, low rate of capital formation, and low technical progress which constitute the bane of sustainable economic growth in Nigeria (Nwanne, 2016).

A high rate of saving leads to a high rate of investment provided the three necessary steps are upheld. First, there must be an increase in volume of real savings so that additional resources become available for investment. Second, a means of collecting and channelling the savings to make them available to investors is necessary. Third, there must be some act of investment by which savings are transformed into productive capital (James, 1987). The mobilization of additional savings to increase investment and initiate higher economic growth can come from internal and external sources. Internally, savings can be mobilized through self-finance (plough back of profits or borrowing from relatives), government appropriation through additional taxes and by financial intermediation.