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Inflationary Rate and Investment in Nigeria

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A B S T R A C T

The study determined the effect of inflationary rate on investment in Nigeria. The descriptive method was used. It was noted that structural rigidities and ineffectual policy recommendations exacerbated the negative effects of inflation on Nigeria's financial sector. It was recommended that the nation enact laws that would expedite sustainable development by requiring significant investment, and that the state guarantee the availability of facilities that would support and stimulate significant investment.

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INTRODUCTION

The persistent increase in the price of petrol over the years began in 1973 during Gowon administration from 6k to 8.4k per litre (40.8%), Murtala in 1976 from 8.45k to 9k per litre (0.59%), Obasanjo 1978 from 9k to 15.3k per litre (70%) until this day that it costs N700 per litre in the present administration of President Tinubu thus causing economic threat as a result of high inflationary rate in Nigeria. However, Nigeria is an evidence of the failure of both monetary and fiscal policies which have caused persistent increase in the inflation rate. The increased transportation cost, cost of locally produced goods, rents, foodstuffs, among others has directly or indirectly affected the economic activities of the country. This eventually made the price of goods and services skyrocket (Adu, Uchehara, Wiiliams, Oguntuase, and Oke-Potefa, 2023). Inflation, or the rising price of commodities, has boosted economic expansion and encouraged workers to shift structurally from the traditional subsistence sector to the rapidly growing industrialized sector. This has allowed for the more efficient and complete use of available financial resources (Aydin, 2017). Even though there are some levels of inflation that promote economic growth, the majority of research still shows that inflation is harmful to economic activity. The monetarists and keynesians have documented the serious contagious effects of inflation, which lead to a deficit balance in international payment transactions by discouraging domestic production and fostering an environment where foreign goods can compete with domestic products (Anidiobu, Okolie, and Oleka, 2018).

Objective of the Study

The main objective of this study is to examine the effect of inflationary rate on investment in Nigeria

LITERATURE REVIEW

The Concept of Inflation

Inflation is a persistent rise in the general price level of goods and services in a nation over a long period of time. Inflation is inherently linked to money and captured as too much money chasing too few goods. Inflation is a long-lasting rise in the general price level of goods and services as measured by consumer price index (CPI) (Ndoricimpa, 2017).

The Concept of Investment

Unproductive and inappropriate projects are often regarded as public investment. In the economically productive public capital, the share of public investment can be a very poor measure of the actual increase. The national rate of capital accumulation above the level chosen is raised by higher public investment by private sector agents. On the other hand, there is likely to be a complementary relationship between private capital in the private production technology and public capital particularly infrastructure capital such as highways, water systems, sewers, and airports. (Adu, 2021).

METHODOLOGY

Descriptive method of research was adopted for this study

RESEARCH RESULT AND DISCUSSION

The Effect of Inflation on Investment

Investment and returns on investment lose value faster than time during inflation which is likened to a race against time because the naira depreciates daily which makes inflation to be frustrating to corporate managers. Prices change dramatically in the future if there is rapid inflation or rather a state of inflation expectation which deductively suggests an adjustment in the investment process that will be made. Inflation is defined as an increase in the general price level of things. Elementary Economics teaches us that too few goods chased by too much money causes inflation. Complaints about inflation, one is actually complaining about the fact that the prices of the things being bought are now more expensive. When there is inflation, choosing the incorrect interest rate and naira together can result in a significant mistake when making investments. According to data from specific African countries, the average inflation rates of 17 to 20% are primarily reflective of the experiences of a smaller group of nations that had high inflation rates in the early 1990s (Adu, et al., 2023).

Another effect of inflation that emerges in the context of persistently negative real interest rates is the excess demand for credit from the private sector, especially for short-term endeavors. When the predicted rate of inflation surpasses nominal interest rates, borrowing becomes highly appealing for specific kinds of private ventures (Adu, 2023).

Over the past 40 years, Nigeria's economic achievements have been tempered by significant, unsatisfactory growth records. During this time, inflation has increased, significantly lowering economic activity in numerous important sectors. The significant adverse effects on the economy is caused by complete inflation particularly on investment decisions.

Empirical Review

Echekoba, Okpala, and Anachedo (2021) conducted a study on the impact of the inflationary trend on Nigeria's developing economy (2010-2019). Two research questions and hypotheses were developed for the study, and data were gathered over a ten-year period from 2010 to 2019 from the publications of the Central Bank of Nigeria (CBN), the Securities and Exchange Commission (SEC) Statistical Bulletin Office, and the National Bureau of Statistics (NBS) Annual Abstract of Statistics. The data were analyzed using regression analysis with the help of E-View 9.0, and it was discovered that while the inflationary trend has a significant impact on Nigeria's gross national expenditure (GNE), it has no discernible effect on the country's GDP. The study made the suggestion that, in order to facilitate faster economic growth and ensure that it has a positive impact on growth, there should be an urgent need for effective monitoring of the inflation rate.

Olugbenga and Oluwabunmi evaluated the effect of inflation on the growth prospects of the Nigerian economy in 2020. On a number of chosen variables, such as real GDP, inflation rate, interest rate, exchange rate, level of economic openness, money supply, and government consumption expenditures for the 1980–2018 timeframe, they employed autoregressive distributed lag. It was discovered that, in contrast to interest rates and money supply, which showed a positive and significant impact on economic growth, inflation and the real exchange rate had a significant negative impact. In the Eze and Nweke’s study conducted in 2017 on the extent of inflation on Nigeria’s economic growth between 1980 to 2015 in which co-integration approach, vector error correction model (VECM) and Granger causality test were employed in the analysis. The VECM findings showed that inflation has a negligible and detrimental impact on Nigeria's economic growth. Furthermore, the results demonstrated that TEXP and GINVXP had a large, detrimental impact on RGDP. In a different study, conducted by Okegbe, Ezejiofor, and Ofurum (2019), the contribution of foreign direct investment (FDI) to Nigeria's GDP between 2000 and 2017 was investigated. Three hypotheses were developed in accordance with the study's goals. The study used an Ex-Post Facto research design, and the regression analysis technique was used to test the hypotheses with the help of E-view version 9.0. The study found that foreign direct investment in Nigeria's financial sector significantly and favorably affects the country's GDP. Additionally, it was revealed that foreign direct investment in the oil industry has had a positive and significant impact on Nigeria's gross domestic product, just as foreign direct investment in non-oil industries has done the same.

By using the Vector Error Correction Model (VECM) to examine the relationship between investment and growth for the years 1981–2012, Egbetunde and Fadeyibi (2015) discovered a long-term correlation between investment and economic growth in Nigeria. It was suggested that in order to achieve economic growth and sustainable development in the nation, the government should make significant investments through suitable mechanisms, reliable institutions, and macroeconomic policies.

CONCLUSIONS AND RECOMMENDATIONS

Conclusion

The financial sector of African countries, notably Nigeria has encountered inflation which has had a number of adverse consequences and magnified by structural rigidities and ineffective policy prescriptions in which savings were discouraged while borrowing for short- term trade activities was encouraged. Borrowing for long-term investment has been discouraged by giving credence to the infrastructure deficit hypothesis which is considered to be at the root of Nigeria's economic troubles. The long-term investment is viable for Nigeria when the inflationary rate is less as the financial sector must be strengthened in order to achieve better economic environment.

Recommendations

It was suggested that prudent monetary and fiscal policies should be developed and pursued by the Government and Central Bank of Nigeria aimed at reducing and stabilizing both the micro and macroeconomic indicators especially inflation targeting, so as to boost the growth of the economy.

The government should pursue international competitiveness of domestically produced goods for proper exchange rate policy, while critical inputs for industry and agriculture must be adopted for short-term economic growth. The government should also adopt demand management policies, such as reducing the real broad money supply, to reduce inflation in the short term. Finally, the government should adopt supply-side policies to pursue and control the rate of inflation in the long run. Lastly, availability and overreliance on imports should be reduced over time through aggressive export promotion to ensure long-term economic growth as economic openness policy.

The government should work harder to raise money to improve and streamline investment activities in order to hasten the nation's sustainable economic development. Additionally, in order to expedite sustainable economic development through significant investment, the government should make sure that sufficient infrastructure is available to support and stimulate significant investment.

To attract investors, the nation's policy makers should implement a suitable combination of robust institutions, legal and regulatory frameworks, and supportive policies to create an atmosphere that facilitates the growth of any business (both local and international).

ADVANCED RESEARCH

Considering the researchers' own limited knowledge and skills, the researcher has come to the realization while writing this article that there are still numerous shortcomings in language, writing, and presentation style. As a result, the researcher anticipates helpful critiques and recommendations from a range of sources to ensure the article is flawless.

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