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Gross Fixed Capita Formation, Interest Rate and Economic Growth in Nigeria

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ABSTRACT

Objective: *This study examines the association between gross fixed capita formation, interest rate and economic growth in Nigeria from 1980-2024. Economic growth, a Proxy for gross domestic product (GDP) is used as the independent variable in the model for the study while the dependent variables are gross fixed capital formation, interest rate, maximum lending rate, prime lending rate and savings rate.* ***Method:*** *The techniques applied are the Ordinary Least Square of multiple regression analysis, unit root test, Co-integration test and Error Correction Mechanism techniques. Unit root results revealed that the variables are integrated of order 1(1). The study also revealed that a long run connection among the variables used exists.* ***Results:*** *The result of the R2 is 0.674298 indicating that the link between the dependent variable and independent variables is 67 per cent. Again, stability test confirmed that stability was found given the result of the Recursive and CUSUM tests. The error correction term indicates significant correction of about 0.748989 or 74 percent from short run disequilibrium to long run equilibrium. This 74 percent is the adjustment speed from short run disequilibrium to its long run equilibrium.* ***Novelty:*** *The study concludes that government should enact healthier policies as it regards to monetary policies considered effective and must also be implementable to back the interest rate hence deepening the operational efficiency of the financial market and thus enhance Nigeria gross fixed capital formation. The study recommends an enhanced gross fixed capita formation, maximum lending rate and savings rate since they have positive and significant effect on gross domestic product in Nigeria while interest rate and prime lending rate which have negative and statistically insignificant link with gross domestic product in Nigeria should be reduced.*

INTRODUCTION (12pt)

In Nigeria, capital formation (investment in productive assets) is crucial for economic growth, typically spurred by savings and a stable financial system, while interest rates act as a key link. Lower rates encourage borrowing and investment (boosting formation/growth), but high rates interest can stifle the economy. Nevertheless, some studies show high rates positively impacting growth by attracting savings, highlighting complex associations requiring balanced Central Bank of Nigeria's policies for stable growth [1]. Capital accumulation has been volatile in both the private and public sectors, and it may not have been sufficient to drive economic development. For example, Nigeria's gross fixed capital formation (GFCF) climbed to $2494431 million in the fourth quarter of 2017, up from $2129258 million in the third quarter. Between 2007 and 2017, Nigeria's gross fixed capital creation averaged $1755873.34 million, with an all-time high of $2876293 million in the second quarter of 2016 and a record low of $17236.65 million in the fourth quarter of 2007 [2]. During the 1980s, gross fixed capital formation

averaged 21.3 percent of GDP. This share rose to 23.3 percent of GDP in 1991 before falling dramatically to 14.2 percent of GDP in 1996.

It picked up and grew to 17.4 percent in 1997, with an average of 21.7 between 1997 and 2000. The gross fixed capital creation increased from 22.3 percent of GDP in 2000 to 26.2 percent in 2002 before falling to 21.3 percent in 2005. The capital creation rate in 2008 was 0.060, which accounted for 6% of GDP. In 2014, the percentage was 15% of GDP, but by 2016, it had declined to 14.35% of total GDP [3]. The pace of growth in Nigeria's economy cannot be properly understood without first examining the role of capital formation to Nigeria's economic growth. This is based on the recognition that capital production is an essential component determining Nigeria's economic growth. Capital creation is the proportion of present revenue saved and invested to increase future production and income. It generally occurs from the acquisition of a new factory, including machinery, equipment, and all productive capital goods [4]. Capital creation is the rise in a country's physical capital stock as a result of social and economic infrastructure investments. Gross fixed capital creation may be divided into two categories: gross private domestic investment and gross public domestic investment [5][6]. Gross public investment comprises investments by the government and public firms, whereas gross private domestic investment is made by private enterprises. Gross domestic investment equals gross fixed capital creation + net changes in inventory. According to economic theories, capital production is vital for economic growth [7].

Aside from that, the changes were supposed to improve labor efficiency and productivity, enhance aggregate supply, reduce unemployment, and yield a low inflation rate. In Nigeria, gross fixed capital accounts for an average of 21.3% of GDP. This share rose to 23.3 percent of GDP in 2001, but fell to 14.2 percent of GDP in 2007 [4][8]. At the theoretical level, several researchers, including myself, have argued that focusing just on physical stocks underestimates the full value and relevance of capital development in economic growth. In other words, capital formation includes not only the increase of physical capital stock, but also human capital [1][2]. Nonetheless, a policy turnaround occurred in 1994, with interest rate regulatory measures reinstated in response to concerns of high and fluctuating rates under the deregulated system. Deposit rates were established at 12% to 15% per year, with a maximum lending rate of 21% per year. A slight shift toward flexibility occurred in 1995, when interest rates on bank deposits and lending were controlled by supply and demand [3][6][9]. Since 2004, the Central Bank of Nigeria's monetary policy committee has set interest rates in response to the economy's performance. In 2013, the loan rate stood at 17.10%, while the monetary policy rate was 12% and the savings rate was 2.39 percent [10][11]. The relationship between the financial and real sectors of the economy permits interest rates to play a substantial role and have an impact [12]. For example, the loan rate, which affects the cost of capital, has a direct influence on investment. High lending rates discourage borrowing for investment reasons, but high savings rates stimulate saving and make more money available for investment [13]. This relationship between interest rates and investment demands an

assessment of the influence of interest rates on capital creation in Nigeria, driving the necessity for this study [14][15].

RESEARCH METHOD

This research work employed a quantitative research paradigm; specifically, time–series econometric approach to investigate the relationship between gross fixed capital formation, interest rate and economic growth in Nigeria for the period 1980–2024. This study adopted secondary data for the analysis which was drawn mainly from the Central Bank of Nigeria (CBN) statistical bulletin and other macroeconomic official databases. In this model, corresponding to the economic growth proxied by Gross domestic product (GDP) as the dependent variable, the gross fixed capital formation (GCF), Interest Rate (ITR), maximum lending rate (MLR), prime lending rate (PLR) and savings rate (SVR) are the explanatory variable. To measure the extent of the influence of these financial and investment indicators on Nigeria economic performance, the study specified an econometric functional relation, where GDP is specified as a function of the identified financial and investment indicators. Before estimating the model, the stationarity of the time series variables was tested using the Augmented Dickey–Fuller (ADF) unit root test to avoid the problems of spurious regression. After establishing that the variables were co-integrated at order one, a Johansen co-integration test was performed to see whether the variables have long-run equilibrium relationships. Having observed co-integration, we carried on and estimated an Error Correction Model (ECM), in which both short-run adjustments dynamics as well as the speed of adjustment from short-run disequilibrium to long-run equilibrium is accounted for. It is also performed by using Dynamic Ordinary Least Squares (DOLS) technique for estimating long run coefficients and to check the robustness of empirical results. In addition, diagnostic and stability tests such as the Durbin–Watson statistic and CUSUM stability tests were also performed to show that the estimated model is appropriate for policy interpretation and inference.

Life Cycle Theory of Savings

Modigliani and Brumberg (1950) proposed the life-cycle hypothesis, which is based on the fact that individuals make consumption decisions depending on the resources available to them throughout their lives and their current stage of life. The theory predicts that a country's population's age of consumption will influence its savings behavior in such a way that the larger the proportion of a country's population that is not in the active labor force, the lower its savings rate will be. In other words, people will save when they are young and have a low salary, save during their productive years, and then save again when they retire. The life-cycle hypothesis is the primary theoretical framework that has guided the research of savings behavior throughout the years. Each of the determinants of savings is articulated in the context of the life-cycle hypothesis, which states that income, income growth, interest rates, inflation, macroeconomic stability, fiscal policy, external debt, terms of trade, and financial development all influence savings behaviors. The Life-Cycle Income Hypothesis (LCH) is based on the aggregate of finitely lived overlapping generations. It sees individuals as selecting a life stream of consumption and

savings so that the present value of their consumption equals the present value of their lifetime earnings and inheritance. The theory is relevant to the research because it explains how capital production reflects the age structure of the population and is likely to influence a society's savings ratio. According to the notion, people save for retirement while they are still working and save little or nothing when they are older. As a result, younger societies are more likely to have greater savings rates than others.

Endogenous Growth Theory

Romer proposed this hypothesis in 1986. According to the notion, investing in human capital, knowledge, and innovation will drive economic growth. That is, productivity gains will accelerate innovation and lead to increased investment in human capital. He underlined the necessity for government and private sector organizations to promote innovation and give incentives to individuals and enterprises. The accumulation of information plays a vital role in determining growth, as knowledge sectors such as telecommunications, electronics, software, and biotechnology become increasingly essential in emerging countries. The proponent of this theory also argues that positive externalities may be derived from the high value-added knowledge economy, which is capable of generating and retaining competitive advantage, as well as development in the global economy. According to the hypothesis, government measures may permanently increase a country's development rate by increasing market competition and stimulating product and process innovation. It also mentions increased returns to scale from additional capital investment, and the premise of the rule of diminishing returns is questioned. Those who believe in the Endogenous growth theory place a high value on the possibility for economies of scale (or growing returns to scale) to occur in almost every sector and market. Thus, private sector investors' investment in R&D remains a vital source of technical improvement, allowing for the creation of a workforce, which is a necessary component of long-term economic growth. Similarly, investment in human capital (including the amount and quality of education and training provided) is critical.

Empirical Literature Reviewed

Chiedozie and Vivian explored how capital accumulation affects economic growth in Nigeria [16]. The data were gathered from the Central Bank of Nigeria's (CBN) statistics bulletin to investigate the influence of capital creation, stock market capitalization, human capital formation, inflation, and interest rates on economic development. The study used the Ordinary least squares (OLS) approach, and the Phillip-Perron test was used to assess the stationarity of the variables. It was observed that gross fixed capital creation and economic growth are integrated of order zero. The Johasen co-integration test was used to identify the order of integration, and the error correction model was used to calculate the rate of adjustment from the long run equilibrium to the short run equilibrium. According to the findings, capital formation had a favorable and substantial influence on Nigerian economic growth over the analyzed period. The stock market also had a beneficial influence, whilst interest rates had a negative impact on economic growth in Nigeria throughout the time under consideration, but the impact

was statistically negligible. The findings also show a long-term relationship between capital formation and economic growth in Nigeria over the time studied. since a result, focus should be placed on capital accumulation in Nigeria, since this will accelerate the country's economic growth and development. The Nigerian stock market should be expanded further to enhance its contribution to domestic economic growth.

Osuka, Otiwu and Nwabeke study investigated the impact of interest rates on capital formation in Nigeria [17]. Data were obtained from the Central Bank of Nigeria's Statistical Bulletin from 1990 to 2021. Gross fixed capital creation was estimated as a function of the savings rate, real interest rate, prime lending rate, and maximum lending rate. Co-integration, Granger Causality, and unit root tests were utilized to determine the long and short run relationships between the variables. According to the study, variations in interest rates caused a 73% fluctuation in Nigeria's gross fixed capital creation. The study also revealed that there was a substantial positive relationship between the factors. The study discovered that the savings rate and prime lending rate have a positive and significant influence on Nigerian fixed capital creation, the real interest rate has a positive but no significant effect, and the maximum lending rate has a negative and negligible effect on Nigerian gross fixed capital formation. The study revealed that there is a statistically significant relationship between savings rates and gross fixed capital creation in Nigeria. There is a statistically significant relationship between the prime lending rate and gross fixed capital creation in Nigeria. There is a statistically significant association between the maximum lending rate and gross fixed capital creation in Nigeria.

The report proposed that effective and implementable monetary policies be used to support interest rates, as well as measures to improve the operational efficiency of the financial industry in order to boost Nigeria's gross fixed capital creation. Same applies to maximum lending rate and prime lending rate on the level of harmonization with the objective of to enhancing Nigeria gross fixed capital formation. Onwiodiokit and Otolorin's study investigates the influence of capital production on Nigeria's economic growth [18]. The research uses the Dynamic Ordinary Least Squares (DOLS) algorithm using data from 1981 to 2018. Infrastructure, health, and skills competitiveness indices derived from global competitiveness surveys were modified to include critical aspects of physical and human capital creation. The DOLS data demonstrate that gross fixed capital creation had a negative and considerable influence on economic growth. The findings also show that foreign debt and the total work force have a detrimental impact on economic development. In contrast, human capital formation and interest rates boosted Nigeria's economic development.

Akani and Obiosa examined the effect of financial intermediation on Nigeria gross fixed capital formation [6]. The independent variable is gross fixed capital formation while the dependent variables are banking sector credit, banking sector deposit, savings prime lending and maximum lending rates. According to the report, financial intermediation accounts for 47 percent of the volatility in Nigeria's gross fixed capital creation. The computed F-statistics and probability revealed that the regression model is fixed and adequate to explain variance in Nigeria's gross fixed capital creation. The

coefficient of the variable revealed that commercial banks' deposit and savings rates had a negative association with Nigeria's gross fixed capital creation, although commercial banks' credit, maximum lending rate, and prime lending rate seem differently. The variable was stationary at first difference, and the cointegration test indicated the presence of a long-run influence. Adeleye investigated between capital formation and economic growth from 1990-2014, spanning a period of 25 years [13]. The study adopted the Ordinary Least square method (OLS) and data obtained from the Central Bank of Nigeria (CBN) statistical bulletins. The independent variables are market capitalization, the number of listed businesses, and traded value, whereas the dependent variable is gross domestic product. The findings revealed that the stock market had a considerable but limited influence on the Nigerian economy. The absence of an effective stock market deprived the economy of long-term funding for sustainable growth and development. The government should establish regulations to strengthen and expand the capital market so that the industrial sector may access long-term investment funding. A strict regulatory framework is advocated for the capital market to control its ill-defined activities while also lowering some of the onerous standards for the sustainability of Small and Medium Enterprises (SME) listed on the stock exchange.

Nweke et al. studied capital formation and economic growth in Nigeria [19]. In addition to the VEC granger causality test, the study used co-integration and a vector error correction model to analyze the model's provided variables. The findings revealed a persistent long-run connection between the dependent and independent variables, as evidenced by two co-integrating equations [20][21][22][23]. According to the VECM, gross capital creation has a positive but small influence on real GDP in both the short and long run. Government capital expenditure discovered negative but significant correlation with real gross domestic product both in the short and long run. From the causality test, the P-value of 0.0004 for RGDP and p-value 0.0016 for GCF is less than 0.05; showing that a bi-directional causality runs amid real gross domestic product) and gross capital formation. Another two-way causality also among gross capital formation and government capital expenditure indicated with a P-value of 0.0007 and P-value of 0.0000 for gross capital formation exists. This analysis concludes that gross capital formation had no meaningful influence on Nigeria's economic development throughout the studied period. Based on the results and policy implications, the report recommends that the government and private sector work together to create an enabling climate for capital investment in the economy. Again, both the government and the private sector should make a concerted effort to combat economic corruption, as well as improve public statistics authorities to guarantee that all private investments are captured and controlled.

RESULTS AND DISCUSSION

Results

Model Specification

In this study, economic growth is the dependent variable and is measured by gross domestic product (GDP) while gross capital formation, interest rate, maximum lending rate, prime lending rate and savings rate are the independent variables. The functional model of the variables is specified as follows:

$$gdp = f(gcf, itr, mlr, plr, svr).....(1)$$

And the econometric functional notation is

$$gdp_t = f(gcf_t + itr_t + +mlr_t + plr_t + svr_t + \mu_t).....(2)$$

Where

GDP = gross domestic product, GCF = gross capital formation, ITR = interest rate, MLR = maximum lending rate, PLR = prime lending rate and SVR = savings rate. α_o = Intercept, $\alpha_1 - \alpha_5$ = Coefficients of the respective independent variables, U_t = Error term and T = Time frame. The ECM model is represented as

$$\Delta \text{gdp} = \beta_0 + \sum_{t=1}^{p} \beta_1 \Delta gcf_{t-1} + \sum_{t=1}^{p} \beta_1 \Delta itr_{t-1} + \sum_{i=1}^{q} \beta_2 \Delta mlr_{t-1} + \sum_{i-1}^{q} \beta_3 \Delta plr_{t-1} + + \sum_{i-1}^{q} \beta_3 \Delta svr_{t-1} + \sum_1 t).....(3)$$

Where, β_0 = constant parameter to be estimated, $\beta_1 - \beta_5$ are short run parameter, $\alpha_1 - \alpha_5$ are long run parameter, D = 1st difference parameter and $\sum_1 t$ =error term, Aprior expectation; $\beta_1 - \beta_5 > 0$

Estimation and Evaluation Techniques

Unit Root Test

Table 1. The Augmented Dickey Fuller (ADF) unit root test is use to establish the stationarity of the time series data used in the study

Variables	Levels		First Difference		Order of Integration	P-value
	ADF Statistics	5% Critical Value	ADF Statistics	5% Critical Value		
GDP	-1.974435	-2.929734	-4.222084	-2.935001	1(1)	0.0000
GCF	-1.122840	-2-.929734	-5.434745	-3.518090	1(1)	0.0000
ITR	-2.566604	-3.526609	-5.993044	-3.533083	1(1)	0.0000
MLR	-3.533083	-4.477752	-7.786171	-3.518090	1(1)	0.0000
PLR	-2.515523	-4.395253	-12.72964	-3.520787	1(1)	0.0000
SVR	-1.654872	-2.515523	-10.68349	-3.518090	1(1)	0.0000

Source: Author Computation from E-Views 2025* Level of significance at 5%

Following Granger and Newbold (1974) acknowledgment that many of the variables that appear in time series econometric models are non-stationary, the study thus carried out Unit root test on the univarite time series to find out the stationarity or otherwise of the series. As can be seen from the test results on the first difference given

in table 1, the null hypothesis has been rejected for all the variables indicating that all variables became stationary at their first difference and are as a result integrated of I(1) hence the variables do not require further differencing.

Table 2. Co-integration test: Trace Statistic

Hypothesized		Trace	0.05	Prob.**
No. of CE(s)	Eigenvalue	Statistic	Critical Value	Critical Value
None *	0.728532	122.9786	95.75366	0.0002
At most 1 *	0.558338	70.82221	69.81889	0.0415
At most 2	0.389941	38.13375	47.85613	0.2962
At most 3	0.210203	18.36576	29.79707	0.5392
At most 4	0.174866	8.926579	15.49471	0.3722
At most 5	0.030481	1.238203	3.841465	0.2658

Source: Author Computation from E-Views 2025* Level of significance at 5%

Table 3. Co-integration test: Max-Eigen

Hypothesized		Max-Eigen	0.05	Prob.**
No. of CE(s)	Eigenvalue	Statistic	Critical Value	Critical Value
None *	0.728532	52.15637	40.07757	0.0014
At most 1	0.558338	32.68846	33.87687	0.0688
At most 2	0.389941	19.76799	27.58434	0.3574
At most 3	0.210203	9.439180	21.13162	0.7955
At most 4	0.174866	7.688376	14.26460	0.4113
At most 5	0.030481	1.238203	3.841465	0.2658

Source: Author Computation from E-Views 2025* Level of significance at 5%

Variables are said to be co-integrated if a long run equilibrium relationship exists among them. According to Engel and Granger (1987), for such relationships to exist, the error terms of the model should be stationary. The variables are said to be co-integrated given that Trace statistic has 2 co-integrating equations and Max-Eigen co-integration test has 1 co-integrating equation result. This thus compels the estimation of an Error Correction Model since a long run association was established.

Table 4. ECM Short-run Result

Variable	Coefficient	Std. Error	t-Statistics	Prob
D(GCF(-1))	-0.789713	0.664164	-1.189033	0.2452
D(GCF(-2))	-1.001775	0.422502	-2.371052	0.0254
D(ITR(-1))	0.189977	0.112617	1.686934	0.1036
D(ITR(-2))	-0.015602	0.115048	-0.135610	0.8932
D(MLR)	0.247410	0.175575	1.409136	0.1706
D(MLR(-1))	0.069974	0.176605	0.396215	0.6952
D(PLR(-1))	-0.131391	0.199184	-0.659647	0.5153
D(PLR(-2))	-0.041772	0.151165	-0.276332	0.7845

D(SVR)	-0.000985	0.016155	-0.060958	0.9519
D(SVR(-1))	-0.021098	0.021443	-0.983913	0.3342
D(SVR(-2))	0.009349	0.017978	0.520043	0.6074
D(ECM-1)	0.748989	0.091896	8.150405	0.0000
Adj R^2 = 0.801039	F*= 2.76930	DW1.= 1.896172		

Source: Author Computation from E-Views 2025* Level of significance at 5%

The result shows the equilibrium structure of the over parameterized error correction model (ECM-1) and the estimated error correction models were a good fit. This is indicated by R- squared of 0.801039 and implies that 80 percent variations in Nigeria gross domestic product are explained by the variables included in the model. Additionally, the Durbin Watson (DW) Statistic also shows that the estimated models is free from the problem of positive first order serial correlation since the computed Durbin Watson value is 1.896172 and is less than the tabulated value of 1.601. The F* value is 2.76930 meaning that the regression is statistically significant at 5 percent level of significance. The error correction terms are appropriately signed (negative) as the theory predicts. The error correction term indicates significant correction of about 0.748989 or 74 percent from short run disequilibrium to long run equilibrium.

Table 5. DOLS Result

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-37.39437	20.93536	-1.786183	0.0821
GCF	3.538347	1.205795	2.934451	0.0056
ITR	-0.011131	0.256408	-0.043412	0.9656
MLR	0.908907	0.191589	4.744055	0.0000
PLR	-0.346287	0.295543	-1.171697	0.2486
SVR	0.038305	0.049186	0.778784	0.4409
R^2=0.674298	F*=6.856850	DW=1.861061	F. Prob=0.000120	

The R^2 from the DOLS estimate was 0.674298 or 67 percent implying that capital formation, interest rate, maximum lending rate, prime lending rate and saving rate in Nigeria are variable included in the model which accounted for 67 percent of the total variation in the study while other variables not included in the model accounted for the remaining 33 percent. In nutshell, the model is remarkable since the F* value was 6.856850 and is significant at the 5% level of significance. Without serial correlation, the model would not work, according to the Durbin-Watson statistics of 1.861061, which is close to 2.

Discussion

Gross Capital Formation and Economic Growth in Nigeria

There is a positive relationship between gross fixed capita formation and gross domestic product in Nigeria. This is because the coefficient of gross fixed capita formation is 3.538347 units. I point increase in gross fixed capital formation increases

economic growth in Nigeria with about 3.538347 units. The t* value is 2.934451 and the probability value of 0.0056 shows that gross fixed capita formation is statistically significant. This implies that gross capital formation will lead to a significant improvement on economic growth in Nigeria.

Interest Rate and Economic Growth in Nigeria

The association between interest rate and gross domestic product in Nigeria is negative. The coefficient value of interest rate is -0.011131 units. This implies that 1 unit increase in interest rate decreases gross domestic product by -0.01113 units. The t* value was -0.043412 and the probability value of 0.9656. This shows that interest rate is statistically insignificant at 5 per cent level of significance. This implies that interest rate cannot lead to any significant improvement on gross domestic product in Nigeria.

Maximum Lending Rate and Economic Growth in Nigeria

The link between maximum lending rate and gross domestic product in Nigeria is positive. The coefficient value of maximum lending rate is 0.908907 units. This implies that 1 unit increase in maximum lending rate increases economic growth by 0.908907 units. The t* value was 4.744055 and the probability value of 0.0000 shows that maximum lending rate is statistically significant at 5 per cent level of significance. This implies that maximum lending rate can lead to any significant enhancement on economic growth in Nigeria.

Prime Lending Rate and Economic Growth in Nigeria

The connection between prime lending rate and gross domestic product in Nigeria is negative. The coefficient value of prime lending rate is -0.346287 units. This suggests that 1 unit increase in prime lending rate decreases prime lending rate by -0.346287 units. The t* value was -1.171697 and the probability value of 0.2486 shows that prime lending rate is statistically insignificant at 5 per cent level of significance. This implies that prime lending rate cannot lead to any significant boost on gross domestic product in Nigeria.

Saving Rate and Economic Growth in Nigeria

The association between savings rate and gross domestic product in Nigeria is positive. The coefficient value of savings rate is 0.038305 units. This suggests that 1 unit increase in savings rate increases savings rate by 0.038305 units. The t* value was 0.778784 and the probability value of 0.4409 indicates that savings rate is statistically insignificant at 5 per cent level of significance. This infers that savings rate cannot lead to any significant increase on economic growth in Nigeria.

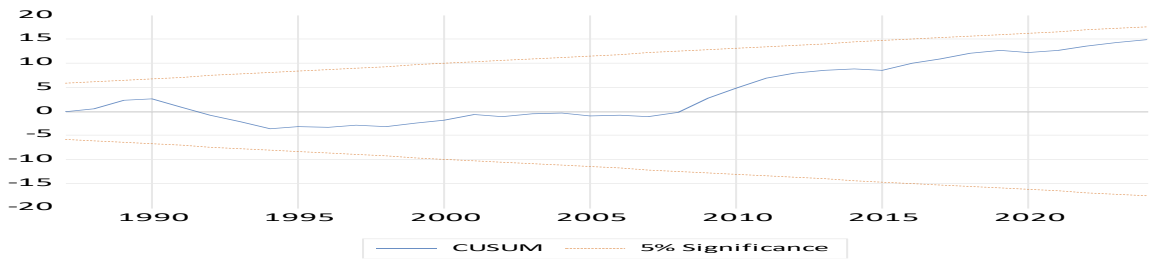

Figure 1. Stability Test A: CUSUM

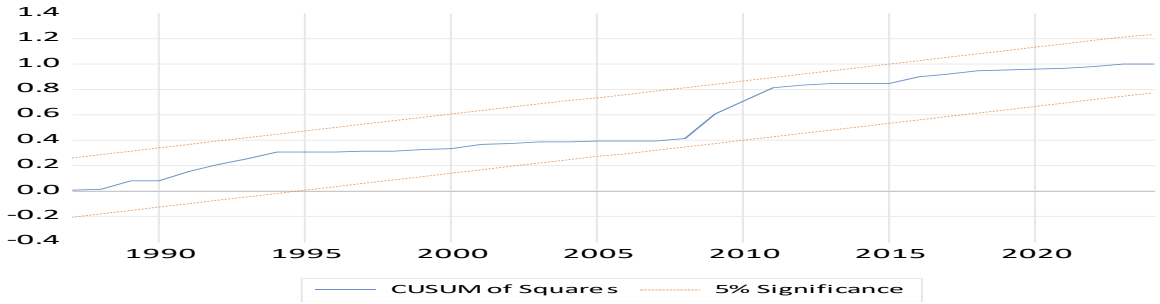

Figure 2. Stability Test B: CUSUM of Square

The CUSUM and CUSUM of Squares shows there is stability between gross fixed capita formation, interest rate and gross domestic product within the study period, 1980-2024.

CONCLUSION and RECOMMENDATIONS

Fundamental Finding: The study further discovered that there was a strong positive and negative relationship between the study variables. Findings form the study indicates that gross fixed capita formation, maximum lending rate and savings rate have positive effect on gross domestic product in Nigeria while interest rate and prime lending rate have negative and statistically insignificant link with gross domestic product in Nigeria. **Implication:** Government should enact better policies regarding monetary policies considered effective which must also be implementable to back the interest rate thus deepening the operational efficiency of the financial market enhance Nigeria gross fixed capital formation in Nigerian Interest rate, prime lending rate and maximum lending rate should be harmonized with the objective of enhancing Nigeria gross domestic product in Nigeria. Nigeria monetary authorities should increase savings rates to enable deposit institutions mobilize fund for investment as this in a way to positively impact on gross domestic product in Nigeria. **Limitation:** From the result, the Adj R2 in study found that there was variation of 80 percent on Nigeria gross domestic product. **Future Research:** The study was to establish the link between gross fixed capita formation, interest rate and gross domestic product in Nigeria. Data of secondary nature were sourced from Central Bank of Nigeria and multiple regression analysis was employed in the analysis.

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