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# COVID 19 & the World Economy: Strategies for Economic Recovery and Sustainability Savings Interest Rate Review in Nigeria

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**Abstract**

The emergence of COVID 19 has adversely affected the global economy as it has practically shut down the global economy since its emergence. Governments of each country have taken drastic decisions in order to save its citizens from the death associated with this highly infectious disease. Such decisions include; total halt in academic, economic and social activities. This has adversely shrunk the economies as their revenue generation power dwindled with an increased expenditure on research, palliatives and sensitisation about the disease. A near collapse of the global economy has been projected towards end of 2020. In order to avert this, economic decision makers are taking different actions and policies that will reduce the shock of this disaster and also revamp the economy. This period coincides with when Nigerian economy is just recovering from the 2016 economic recession with declining per capita income as well as collapsing global oil prices. In order to recover the economy which has previously been characterised by dwindling economic indicators, the Government applied some structural changes targeted at the Medium and Small scale enterprises. To further recover the Nigerian economy, the Central Bank of Nigeria through the Monetary Policy Committee has announced a cut in the savings interest rate on local currency to be negotiable subject to 10 percent of the Monetary Policy Rate which is 12.5 percent effective September 1, 2020 leaving the minimum savings rate at 1.25 percent. This will have reviewed and accessed as it affects investment, GDP, Consumption, Savings and how quickly and effectively this can revamp the economy considering all other factors such as the Foreign Direct Investment and the fluctuating global oil prices.

**Background to the Study**

The global economy which seems to be a conceptual concept to many daily affects the decisions of individuals and the government. It is vulnerable to disasters which can either be natural or man-made. These disasters often strike with little or no warning and are mostly disastrous to the economy and human are there to face the consequences of such disasters. One of such disasters in the recent time is the novel Corona virus otherwise known as COVID19. This pandemic was imported into Nigeria in February 2020 and got worse so much that the Federal government had to declare total lockdown of all social and economic activities in the country in March 2020. The period is one of the most challenging downturn in the history of Nigerian economy as it is coupled with existing issues of increasing unemployment rate, capital reversals, health crisis and an almost shut-down economy. It is worse as it coincides with the period every other country in the World is facing same health crisis and there is no country to turn to for aid. This is further worsened by the mono-product nature of the country and its almost total dependence on oil at a time when global oil price fell as low as $12 in April 2020 and even with this, the oil could not be sold to other countries that have also shut down their own economies due to the same pandemic. The production cost could not even be covered during this period thereby leading to reduced revenue in this area as well as reduced taxes and other sources of revenues which were also non-functional due to the economic lockdown. Most of the advanced countries' economies have been devastated and global output has drastically reduced. The impact has been likened to the economic slowdown experienced during World War II (OECD, 2020:4). Most governments have been responding to this with a short term recovery method as their major focus have been survival of vulnerable sectors, distribution of palliatives and also leveraging private sector's contribution to the disaster management. Nigerian Government has also responded to this pandemic by focusing majorly on individuals and Small and Medium Scale Enterprises (MSME) which is believed to be the engine run of the country. Some of those measures include distribution of palliatives, short and medium term loans to individuals and private businesses and survival funds of different categories. With all these measures, the economy seems to be responding slowly to these measures as the rate of investment and consumption remain all time low over this period. The Federal government therefore charged the Central Bank of Nigeria through the Monetary Policy Committee (MPC) to employ expansionary monetary policy to revamp the economy. Their decision was majorly focused on how to strike a balance between maintenance of stable price development across market interest rates while also supporting the recovery of output growth (CBN Monetary handbook, 2020).

This measure will be closely examined and statistically analysed to reveal the performance of such measures overtime. For the purpose of this study, the year 1985 to 2019 will be examined. This will generate and extensive and reliable result as the range of these years signifies the military as well as the civilian rule which have witnessed several recessions and savings interest rate management. This study will therefore explain how this policy has fared within the specified period and how the economy has recovered from the doldrums of those recessions.

**Economics of Savings Rate Review**

The rate of interest which can be defined as the reward for parting with liquidity for a specified period of time is also the price which equilibrates the desire to hold wealth in the form of cash with the available quantity of cash (Anyawu, 2009: 22). Savings rate maintenance is an element of monetary policy which is one of the major economic stabilisation instruments. It involves measures designed to regulate and control the volume, cost, availability and direction of money and credit in an economy to achieve some specified macroeconomic policy objectives (Molho, 2008:5). These macroeconomic objectives include maintenance of relative stability in domestic prices, attainment of high or full rate of employment, achievement of high and sustainable interest rate as well as maintenance of balance of payment equilibrium. the policy of savings rate review is targeted at investment, consumption and ultimately the Gross Domestic Product is a major factor in determining if the economy is growing or otherwise. (Christopher, 2006:79). The economics of savings interest rate has been a subject of interest to many economists and academic scholars as its management affects level of investment, consumption and National growth. This has been explained by different models ranging from Classical economists and even to the supply-side economists and different models and theories propounded about the determinants of interest rate which is beyond the purview of this paper and it is a pointer to further research on the concept of savings interest rates.

According to the Mc Kinnon and Shaw proposition as analysed by Molho (2008), both author opined that the level of interest's rate on savings could affect investment and savings by reducing effective constraint on capital information. This has been adjudged by some other economists as inconsistent as Kinnon-Shaw proposition can only be feasible when all rates of returns are certain (Chuku, 2009).

Ayinde, Balogun and Egbetunde (2017) opined that the relationship between savings interest rate and the economic growth is inversely related. This was analysed using the data cointegration and Error correction Model. This although agrees with the tenets of this study but it is different as it further assesses the unexpected shocks which might arise from depression.

Arzizeh, Udoke and Agwang (2012), employed Ex-Post facto research design to analyse the relationship between inflation rate and GDP. It was concluded from their study that a viable monetary policy will lead to development of real sector of the economy. Even though these researchers propounded that the monetary policy will revamp the economy, it can be flawed on the ground that the specific monetary policy that should be employed was not concluded.

Ubesie (2016), employed variables such as interest rate, inflation and exchange rate to determine the effect on the economic growth in Nigeria using the applied sector error corrector model. These variables explained that the reduced interest rate has a positive effect on the economic growth of Nigeria but with inflationary tendencies.

Anyingang and Udoka (2012). Also adopted the Error Correction Mechanism to assess the relationship between and among savings interest rate, inflation and the GDP. They opined that the relationship is inconclusive and unidirectional. They went further to say that there is an inversely related relationship between savings deposit rate and the GDP.

Obamuyi (2009), compared the savings interest rate in Nigeria before reform, during reform and post reform and analysed this with the economic growth. He concluded that the savings interest rate though has a significant impact in Nigerian economic growth. He also concluded that a reduced rate will increase unspent income which will be inflationary. This opinion did not consider the time lag when the unspent income will expand the economy and will eventually lead to investment.

Jelilov (2016), in his study found out that interest rate should be controlled and maintained by authorities in such a way that will boost the economic growth and also achieved the desired result. Also, even though the low savings rate will boost economic growth, there are other factors that will negatively hamper the economic growth such as persistent budget deficit, inefficient public sector coupled with an unfavourable macroeconomic environment.

From the above reviewed literatures, it is of my findings and opinion that in the efficient allocation of resources which is targeted at economic growth and development, interest rate and its management cannot be ruled out and that the variable plays a significant role in inflation as well as the GDP. Also, the reviewed literatures opined that the reduced interest on savings will increase consumption due to availability of unspent income but this study is of the opinion that such unspent income can actually be channelled towards increased investment which will automatically expand the economy and hasten its recovery. Even though this effect of expansion may not be immediate, this study recognises the time lag in the achievement of this recovery.

**Methodology**

The adoption of simultaneous equations system model for this study is condition on the fact that GDP growth rate, savings interest rate and inflation are interdependent; therefore the use of single equation to investigate such relationship will underestimate the total effect. Hence, unlike single equation model the simultaneous equation model analyses simultaneous relationship between two or more endogenous variables. The system of equations is arranged in a way that the endogenous variables of one equation may appear as predetermined variables in the other equation of the system, which consequently limit the use of classical OLS method that is inconsistent in estimating such model because of endogeneity problem where it is possible for an endogenous explanatory variable to correlate with error term of other equations in which it appears as an explanatory variable. However, simultaneous equation model will need to satisfy the order and rank conditions, the latter is used in identification of the model and this can make each endogenous model to be under identified, just identified or over identified. The identifiability of an equation depends on whether it excludes one or more variables

that are included in other equations in the model. If the model is under-identified, then it cannot be estimated by any method. When the model is fully identified Indirect least square (ILS) method is used and when model or equation is over identified then two stages least square (2SLS) technique is used to estimate structural parameters of the model. This paper estimated the simultaneous equation using two stages least square (2SLS) and model structural form is stated as follows

**Model 1:** Simultaneous equations Model

$$Y_{gr_t} = f(Sr_t, \pi_t, Exr_t, DI_t, FDI_t, Cons_t, TO_t) \quad (1)$$

$$S_{r_t} = f(Y_{gr}, \pi_t, Exr_t, DI_t, FDI_t) \quad (2)$$

$$\pi_t = f(Y_{gr}, Sr_t, FDI, TO_t) \quad (3)$$

In linear form, equations (1) – (3) can be written as:

$$Y_{gr_t} = \beta_0 Sr_t + \beta_1 \pi_t + \beta_2 \ln Exr_t + \beta_3 \ln DI_t + \beta_4 \ln FDI_t + \beta_5 \ln Cons_t + \beta_6 \ln TO_t \quad (4)$$

$$S_{r_t} = \delta_0 Y_{gr} + \delta_1 \pi_t + \delta_2 \ln Exr_t + \delta_3 \ln DI_t + \delta_4 \ln FDI_t \quad (5)$$

$$\pi_t = \lambda_0 Y_{gr} + \lambda_1 Sr_t + \lambda_2 \ln FDI + \lambda_3 \ln TO_t \quad (6)$$

where $\beta_0 \_ \beta_6$, $\delta_0 \_ \delta_4$, $\lambda_0 \_ \lambda_3$ are parameters of structural equations, and the three endogenous variables are output growth rate ($Y_{gr}$), savings interest rate (Sr), and inflation rate ($\pi$), while exchange rate (Exr), consumption (Cons)[1], and trade openness (TO) are exogenously determined. The domestic investment (DI), Foreign Direct Investment (FDI) are included as control variables.

**Model 2:** Threshold Model

A further investigation that is of interest to this study is to know the threshold level of inflation and savings interest rate that will be consistent with the growth pattern of economic growth in Nigeria. The rationale behind the estimation of the model is to establish the point at which the dimension (linear or non-linear) of inflation-GDP and savings-GDP nexus will change from what is postulated (positive) in the theory. Utilizing a threshold model, Ahmad (2005) and Khan and Senhadji (2011) assessed the threshold level of inflation for Bangladesh, but this study modifies the model by including the threshold of the savings interest rate and therefore can be estimated as

$$Y_{gr} = \alpha_0 + \alpha_1 \pi_t + \alpha_1 D_t(\pi_t - k) + \varepsilon_1 \quad (7)$$

$$Y_{gr} = \sigma_0 + \sigma_1 Sr_t + \sigma_1 D_t(Sr_t - k) + \varepsilon_2 \quad (8)$$

Where the dummy variable, D, is defined as:

$$D = 1 : \pi_t > k; D = 0 : \pi_t \leq k$$

$$D = 1 : Sr_t > k; D = 0 : Sr_t \leq k$$

[1]Note that consumption is the sum of government and private consumption, and the Domestic Investment (DI) is proxy by Gross Fixed Capital Formation (GFCF), while the Trade Openness Index is calculated by taking the sum of import and export to be divided by total GDP.

K denotes the threshold level of the inflation and savings interest rate at which structural break occurs and ε is random error term. The parameter k possesses the property that the relationship between either inflation and growth or savings and growth is given by low inflation rate: $\alpha_1$&$\epsilon_1$; while high inflation and savings rate is given as ($\alpha_1 + \alpha_{2j}$ and ($\epsilon_1 + \epsilon_2$). If the coefficient of dummy variables is statistically significant, the impact of inflation and savings on economic growth will be added even though $\alpha_1$ and $\epsilon_1$ are statistically significant or not. Since the value of k is arbitrary, the optimal k can be obtained from estimates of equation (7 and 8) by selecting the value from estimated equation that gives the lowest fraction of residual sum of squares (RSS).

**Data Analysis**

Table 1 shows the summary statistics of the eight (8) variables with 35 observations in the model. Evidently, many of the variables are widely dispersed from its mean value, except GDP growth and trade openness that have low deviation. The Jarque-Bera test for normality, revealed that savings interest rate, trade openness and exchange rate are normally distributed, while other variables are skewed distribution.

**Table 1:** Descriptive Statistics N=35

| | GDP_GR | SRATES | INF | CONS | TO | EXR | DI | FDI |
|---|---|---|---|---|---|---|---|---|
| Mean | 0.216004 | 7.221274 | 19.42322 | 2124.047 | 0.321893 | 64.65415 | 4632.558 | 651.7347 |
| Median | 0.179291 | 4.190000 | 12.00000 | 6.020000 | 0.346324 | 68.54285 | 0.499682 | 111.2950 |
| Maximum | 0.642376 | 18.80000 | 76.75887 | 10702.23 | 0.589178 | 154.2899 | 37015.48 | 2627.990 |
| Minimum | 0.027331 | 1.410541 | 0.223606 | 0.060000 | 0.073624 | 17.61339 | 0.008799 | 0.434100 |
| Std. Dev. | 0.135744 | 5.281329 | 18.69728 | 3475.536 | 0.114103 | 44.00838 | 8642.422 | 952.6849 |
| Skewness | 1.199048 | 0.832597 | 1.723839 | 1.113000 | -0.081867 | 0.441411 | 2.065802 | 1.112552 |
| Kurtosis | 4.412403 | 2.156962 | 4.855885 | 2.538150 | 2.869682 | 2.096985 | 7.175933 | 2.377569 |
| | | | | | | | | |
| Jarque-Bera | 11.29587 | 5.080231 | 22.35740 | 7.537226 | 0.063863 | 2.325768 | 50.32499 | 7.785320 |
| Probability | 0.003525 | 0.078857 | 0.000014 | 0.023084 | 0.968573 | 0.312583 | 0.000000 | 0.020391 |

The structural parameters of two stage least square are presented in table 2, and the result shows that savings interest rate, inflation rate, trade openness and exchange rate significantly influence growth rate of output. For 1 percent increase in savings interest rate, controlling for other variables, GDP growth rate increase on average by 1 percent. This outcome conforms to the theory of exogenous growth theory, because increased in savings will increase GDP through investment, but contradicts the assertion of Central Bank of Nigeria that reduction in saving interest rate will stimulate the GDP.

In the same vein, increase in inflation by 1 percent also leads to 0.3 percent increase in GDP, this implies that GDP growth rate increases when price level increases. The significant positive relationship between trade openness (TO) and economic growth is an indication that Nigeria's economic growth will do well if she open-up her economy and boarders for trade, because for 1% increase in TO, growth of GDP increases on average by 13.65%. Note that holding other variables constant, an increase in exchange rate by 1%

increases GDP growth by 5.57%. This implies that depreciation of naira against other currencies will stimulate growth because the Nigeria export becomes cheaper relative to other countries. The precision of the model is good, where the amount of variation in GDP growth rate that is explained jointly by other variables is 71.45%, and the overall model is significant (F=7.408, p<.05).

**Table 2:** Structural Parameter Estimates Of Endogenous Variables (Output, Savings & Inflation)
**Method:** Two-Stage Least Square

| Variable | $Y_{gr}$ | $Sr$ | $\pi$ |
|---|---|---|---|
| C | 0.034035 | 21.11512*** | -43.26884** |
| $_{gr}$ | - | 7.659719* | 94.81209*** |
| $Sr$ | 0.010030* | - | 1.659243** |
| $\pi$ | 0.003898*** | 0.038980 | - |
| LOG(CONS) | -0.006129 | - | - |
| LOG(TO) | 0.136525*** | - | -15.39193** |
| LOG(EXR) | 0.055721* | -3.214268*** | - |
| LOG(DI) | - | 0.132273 | - |
| LOG(FDI) | - | -0.882675** | 2.545000* |
| R-squared | 0.714537 | 0.832074 | 0.635422 |
| Adjusted R-squared | 0.665319 | 0.803121 | 0.586811 |
| F-statistic | 14.51786*** | 28.73905*** | 13.07172*** |
| Durbin-Watson stat | 2.195404 | 1.522159 | 2.371526 |

Note ***, **, * denotes 1%, 5% and 10% level of significance

When savings interest rate becomes endogenous, a 1% increase in GDP growth rate, increases savings on average by 7.65 percent, while increase in exchange rate and foreign direct investment by 1% will significantly result in reduction of savings on average by 3.21 and 0.88 percent respectively. However, inflation and domestic investment are non-drivers of savings in Nigeria. The precision of the savings model is good, where the amount of variation in savings rate that is explained jointly by other variables is 83.2%, and the overall model is significant (F=28.739, p<.05)

The structural estimates of inflation revealed that output growth, savings, and foreign direct investment have positive and significant relationship with inflation, such that for a 1% increase these variables, inflation increases on average by 94.81, 1.66, and 2.55 percent respectively; but trade openness reduce inflation on average by 15.39 percent. The precision of the model is good, because the amount of variation in inflation that is explained jointly by other variables is 63.54%, and the overall model is significant (F=13.072, p<.05)

**Threshold of Inflation**

The use of OLS to estimate the threshold of savings revealed that five (5) percent[2] inflation rate for savings per annum is the optimum rate of inflation that is normal for consistent economic growth in Nigeria.

**Table 2.**

| K | Variables | Coefficient | Standard error | t-statistics | $R^2$ |
|---|---|---|---|---|---|
| **5 percent** | $\pi_t$ | 0.00095 | 0.0175 | 0.5466 | 0.4413 |
| | Δ(Dummy) | -0.00484 | 0.0177 | -0.2721 | |
| | Constant | 0.10116 | 0.0824 | 1.2275 | |
| **6 percent** | $\pi_t$ | 0.00083 | 0.0139 | 0.5812 | 0.4410 |
| | Δ(Dummy) | -0.00338 | 0.0142 | -0.2374 | |
| | Constant | 0.10478 | 0.0788 | 1.3295 | |
| **7 percent** | $\pi_t$ | 0.00730 | 0.0116 | 0.6296 | 0.4408 |
| | Δ(Dummy) | -0.00255 | 0.0119 | -0.2152 | |
| | Constant | 0.10706 | 0.0761 | 1.4070 | |
| **8 percent** | $\pi_t$ | 0.00678 | 0.0099 | 0.6880 | 0.4406 |
| | Δ(Dummy) | -0.00202 | 0.0101 | -0.2002 | |
| | Constant | 0.10866 | 0.0736 | 1.4764 | |
| **9 percent** | $\pi_t$ | 0.00666 | 0.0086 | 0.7754 | 0.4408 |
| | Δ(Dummy) | -0.00192 | 0.0089 | -0.2160 | |
| | Constant | 0.10813 | 0.0712 | 1.5192 | |
| **10 percent** | $\pi_t$ | 0.00632 | 0.0075 | 0.8373 | 0.4407 |
| | Δ(Dummy) | 0.00158 | 0.0079 | -0.2005 | |
| | Constant | 0.10973 | 0.0685 | 1.6020 | |
| **11 percent** | $\pi_t$ | 0.00596 | 0.0068 | 0.8813 | 0.4405 |
| | Δ(Dummy) | -0.00122 | 0.0071 | -0.1710 | |
| | Constant | 0.11209 | 0.0659 | 1.7014 | |
| **12 percent** | $\pi_t$ | 0.00573 | 0.0061 | 0.9398 | 0.4404 |
| | Δ(Dummy) | -0.00098 | 0.0007 | -0.1514 | |
| | Constant | 0.11374 | 0.0631 | 1.8017 | |

[2]At this rate $R^2$ is highest and residual sum of square is least.

**Threshold of Savings**

The use of OLS to estimate the threshold of savings revealed that eight (8) percent interest rate for savings per annum is the optimum level of savings interest rate that is consistent with economic growth. The rate actual 1.25% annual interest rate on savings is relatively too low compare to the optimal rate of savings. Thus, a further reduction in the rate will do more damage by reducing economic growth because such interest rate will not attract savings and capital accumulation.

**Table 3.**

| K | Variables | Coefficient | Standard error | t-statistics | $R^2$ |
|---|---|---|---|---|---|
| **5 percent** | Sr | 0.0034 | 0.0237 | 0.1437 | 0.2458 |
| | Δ(Dummy) | 0.0108 | 0.0274 | 0.3944 | |
| | Constant | 0.1577 | 0.0907 | 1.7375 | |
| **6 percent** | Sr | 0.0021 | 0.0202 | 0.1050 | 0.2488 |
| | Δ(Dummy) | 0.0136 | 0.0256 | 0.5322 | |
| | Constant | 0.1635 | 0.0809 | 2.0196 | |
| **7 percent** | Sr | 0.0014 | 0.0179 | 0.0801 | 0.2518 |
| | Δ(Dummy) | 0.0163 | 0.0253 | 0.6445 | |
| | Constant | 0.1667 | 0.0740 | 2.2518 | |
| **8 percent** | Sr | 0.0021 | 0.0150 | 0.1432 | 0.2544 |
| | Δ(Dummy) | 0.0174 | 0.0241 | 0.7249 | |
| | Constant | 0.1648 | 0.0655 | 2.5166 | |
| **9 percent** | Sr | 0.0159 | 0.0082 | 1.9463 | 0.2417 |
| | Δ(Dummy) | -0.0007 | 0.0149 | -0.4796 | |
| | Constant | 0.1147 | 0.0446 | 2.5686 | |
| **10 percent** | Sr | 0.0073 | 0.0103 | 0.7224 | 0.2493 |
| | Δ(Dummy) | 0.0120 | 0.0219 | 0.5410 | |
| | Constant | 0.1457 | 0.0518 | 2.8098 | |
| **11 percent** | Sr | 0.0123 | 0.0089 | 1.3725 | 0.2422 |
| | Δ(Dummy) | 0.0001 | 0.0228 | 0.0414 | |
| | Constant | 0.1260 | 0.0482 | 2.6099 | |
| **12 percent** | Sr | 0.0157 | 0.0075 | 2.0947 | 0.2476 |
| | Δ(Dummy) | -0.0113 | 0.0233 | -0.4833 | |
| | Constant | 0.1116 | 0.0443 | 2.5226 | |

## Appendix
## Table 4.

Dependent Variable: GDP_GR
Method: Two-Stage Least Squares
Date: 10/25/20 Time: 06:20
Sample: 1985 2019
Included observations: 35
Instrument specification: SRATES INF LOG(CONS) LOG(TO) LOG(EXR)
LOG(DI) LOG(FDI)
Constant added to instrument list

| Variable | Coefficient | Std. Error | t-Statistic | Prob. |
|---|---|---|---|---|
| C | 0.034035 | 0.157165 | 0.216553 | 0.8301 |
| SRATES | 0.010030 | 0.005726 | 1.751571 | 0.0904 |
| INF | 0.003898 | 0.000930 | 4.192961 | 0.0002 |
| LOG(CONS) | -0.006129 | 0.004807 | -1.274989 | 0.2124 |
| LOG(TO) | 0.136525 | 0.032063 | 4.258018 | 0.0002 |
| LOG(EXR) | 0.055721 | 0.030494 | 1.827292 | 0.0780 |

| | | | |
|---|---|---|---|
| R-squared | 0.714537 | Mean dependent var | 0.216004 |
| Adjusted R-squared | 0.665319 | S.D. dependent var | 0.135744 |
| S.E. of regression | 0.078530 | Sum squared resid | 0.178842 |
| F-statistic | 14.51786 | Durbin-Watson stat | 2.595404 |
| Prob(F-statistic) | 0.000000 | Second-Stage SSR | 0.178842 |
| J-statistic | 1.408387 | Instrument rank | 8 |
| Prob(J-statistic) | 0.024620 | | |

**Table 5.**

Dependent Variable: SRATES
Method: Two-Stage Least Squares
Date: 10/25/20 Time: 06:33
Sample: 1985 2019
Included observations: 35
Instrument specification: GDP_GR INF LOG(EXR) LOG(DI) LOG(FDI)
LOG(FDI)
LOG(CONS) LOG(TO)
Constant added to instrument list

| Variable | Coefficient | Std. Error | t-Statistic | Prob. |
|---|---|---|---|---|
| C | 21.11512 | 2.760942 | 7.647795 | 0.0000 |
| GDP_GR | 7.659719 | 4.335848 | 1.766602 | 0.0878 |
| INF | 0.038980 | 0.032433 | 1.201851 | 0.2391 |
| LOG(EXR) | -3.214268 | 0.748547 | -4.294008 | 0.0002 |
| LOG(DI) | 0.132273 | 0.167780 | 0.788367 | 0.4369 |
| LOG(FDI) | -0.882675 | 0.371755 | -2.374348 | 0.0244 |

| | | | |
|---|---|---|---|
| R-squared | 0.832074 | Mean dependent var | 7.221274 |
| Adjusted R-squared | 0.803121 | S.D. dependent var | 5.281329 |
| S.E. of regression | 2.343379 | Sum squared resid | 159.2513 |
| F-statistic | 28.73905 | Durbin-Watson stat | 1.322159 |
| Prob(F-statistic) | 0.000000 | Second-Stage SSR | 159.2513 |
| J-statistic | 1.867090 | Instrument rank | 8 |
| Prob(J-statistic) | 0.006132 | | |

**Table 6.**

Dependent Variable: INF
Method: Two-Stage Least Squares
Date: 10/25/20 Time: 06:51
Sample: 1985 2019
Included observations: 35
Instrument specificatio n: GDP_GR SRATES LOG(FDI) LOG(TO) INF
LOG(CONS) LOG(EXR)
Constant added to instrument list

| Variable | Coefficient | Std. Error | t-Statistic | Prob. |
|---|---|---|---|---|
| C | -43.26884 | 15.30153 | -2.827747 | 0.0083 |
| GDP_GR | 94.81209 | 21.64197 | 4.380937 | 0.0001 |
| SRATES | 1.659243 | 0.676499 | 2.452690 | 0.0202 |
| LOG(FDI) | 2.545000 | 1.335611 | 1.905495 | 0.0663 |
| LOG(TO) | -15.39193 | 6.288267 | -2.447722 | 0.0204 |

| | | | |
|---|---|---|---|
| R-squared | 0.635422 | Mean dependent var | 19.42322 |
| Adjusted R-squared | 0.586811 | S.D. dependent var | 18.69728 |
| S.E. of regression | 12.01857 | Sum squared resid | 4333.378 |
| F-statistic | 13.07172 | Durbin-Watson stat | 2.371526 |
| Prob(F-statistic) | 0.000003 | Second-Stage SSR | 4333.378 |
| J-statistic | 3.100000 | Instrument rank | 8 |
| Prob(J-statistic) | 0.004831 | | |

**Results**

From the above collected data and analysis, reduction in interest rate will stimulate output and control inflation. It will discourage savings and encourage consumption. Although, this is immediately inflationary but with time it will translate to high volume of unspent income which will lead to availability of cheaper loans, increased output and ultimate recovery of the economy from depression.

**Conclusion and Recommendation**

The reduction in savings interest rate will only lead to economic recovery ceteris paribus the increased unspent income is channelled towards investment and increased output which will eventually lead to economic recovery. It is therefore recommended that such unspent income should rather be channelled towards increased investment rather than consumption.

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