

## **Empirical Study of the Impact of Inflation on Bank Performance: Implication for Investment Decision Making in Banking Industry in Nigeria**

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**Abstract:** This study is designed to empirically examine the relationship between inflation and banks' performance and how the outcome influences the lending decision of such banks. The most commonly performance measure used by banks is profitability. It is all about how inflation affects profit levels and how profit level influences the investment decision of banks vis-à-vis lending. The main objective is to ascertain the extent to which profit of banks under inflationary period affect the lending decision of such banks. The research design adopted in this study is ex-post factor research design which relies mainly on the use of secondary data. Our targeted population is all the commercial banks quoted in Nigerian Stock Exchange. The sample size is the four stand-alone bank and four merged banks that are in operation after the recent bank consolidation reform that took place in Nigerian banking industry. Secondary data were sourced from CBN Annual Reports and financial statement of the sampled banks. We applied linear regression technique to panel series of data to test the hypothesis, while the t-statistics and p-value were used in determining the level of significant effect between inflation and profitability vis-à-vis the lending decision of banks. The result revealed that there is positive but not significant relationship between inflation, banks' performance and the investment decision of commercial banks operating in Nigeria. This implies that the impact of inflation on bank's performance vis-à-vis investment decision of banks was positive but not statistically significant. Based on this, we recommend among other things that CBN should consider the policy option that would encourage investors (banks) to carry on their investment (lending) plans irrespective of inflationary symptoms in the economy.

**Key words:** Inflation • Performance • Profitability • Commercial banks • Lending • Decision  
• Nigeria

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### **INTRODUCTION**

The research is aimed at empirically evaluating the impact of inflation on the performance of commercial banks and the implication of the outcome on investment decision making of such banks. In other words, this study is designed to empirically examine the relationship between inflation and banks' performance and how the outcome influences the lending

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decision of such banks. The most commonly performance measure used by banks is profitability ratio. It is all about how inflation affects profit levels and how profit level influences the investment decision of banks vis-à-vis lending. Profitability in the banking sector has been extensively examined in developed countries, especially in North America and Europe. Evidence from these studies is an indication that bank profitability depends on several factors in which inflation is one of them. Inflation as a virus that has come to stay in virtually all the economies of nations of the world both emerging and industrialized economies has reduced competitiveness in the world markets and can have a general debilitating effect on almost all type of economic activities, especially banking. It has been described as what hits the consumer's pocket by eroding the purchasing power of the currency and sometimes acts as hidden tax [1]. When one thinks of inflation what comes to mind is the dynamic situation of persistent increase in the price level which results in the diminution of real purchasing power of currency at one's disposal at any point in time. Inflation which can take the forms of cost push, demand pull, imported, creeping, wage push, mark-up or profit push is a condition of unrelenting price spiral. It has been generally described as a situation of persistent rise in prices of goods and services arising from too much money chasing too few goods in an economy. It always results when the aggregate demand exceeds the aggregate supply of goods and services and has the net effect of reducing the purchasing power of the monetary unit.

To express further how serious the issue of inflation is, Oritoni, (1981) [2] defined it as the creation of money that eventually rises prices of goods and lowers the purchasing power of currency in question. When this reduction in the purchasing power of money is gradual as it was the case in Nigeria in the early 60s, the situation was never worrisome because there is no nation that is inflation-free. The only thing that makes the difference is the rate. Inflation rate is defined as an annual rate of increase of the average price level. Evidence has revealed that the countries with highest volume of money growth as is the case in Nigeria today also has very high rate of inflation. The inflation if it crosses the single digit is an index of a weak economy. As a matter of fact, high rate of inflation can occur only when there is a high volume of money supply; hence, one can conclude that inflation is a monetary phenomenon. When changes in price levels become 'a run-away hyper-type-inflation' the entire economic system would be at the brink of collapse as has been experienced in Nigeria since earlier 80s to date. However, Emekekwe (2008) [3] opined that inflation is not completely dreadful; hence a certain level of inflation is desirable in order to ensure sustainable economic growth. Beyond that level, it becomes a hydra-headed monster that has baffled monetary economics over the years. At the undesirable level, inflation greatly affects the performance of corporate organizations, hence hampers the financial decisions thereby constituting big source of uncertainty in the economic world.

**Statement of Problem:** This study is set to examine the effect of inflation on the performance of banks and how the outcome influences the investment decision of Nigerian banks. The major issue which prompted this study is the general neglect of what inflation can do to financial plans of an organization especially in developing countries in which Nigeria is one of them. The organizations could be banks or other corporate entities, which ever, unfortunately in most cases the effect can be disrupting for investment decision making. In support of this discovery, [4] noted that the issue of the impact of inflation on banks' performance for investment decision making had received very little or no attention in developing economies. He attributes this to the fact that much of the literature existing then on econometric analysis has been developed in the USA and other industrialized nations where the rates of inflation are comparatively small. In recent time the need has risen for a more precise analysis because even in some of the advanced economies, the impact of inflation on corporate performance for investment decision can no longer be neglected. It is against this backdrop that this study is designed to empirically examine the relationship between inflation and banks' performance and how the outcome influences the Nigerian commercial banks' lending decision.

The study is set to achieve the following objectives; to ascertain the impact of inflation on the performance of banks and how the outcome affects the investment decision of the banks and to determining the extent to which inflation affects the lending decision of Nigeria banks. Based on these objectives, the paper hypothesized that there is no positive and significant relationship between inflation and banks' performance and that lending decision of banks is not significantly affected by inflation.

The rest of the paper is organized thus: section two presents the theoretical framework of the study, section three handles the research method, section four presents, analyzes and interprets the result, while section five summaries the result, makes recommendations and concludes the paper.

**Review of Theoretical Framework/Empirical literature:** There are several schools of thought on the impact of inflation on the profitability position of companies and the effect of such on the investment decision of firms in any economy. This paper adopts a very simple theory known as wage inflation theory which considers the equation of exchange as  $MV=PY$ , where  $MV$  is the income velocity of money and  $PY$  is general price level. This theory of wage inflation which states that prices are proportional to money wages and that wages rise cautiously at a constant percentage rate per annum has gained wide acceptance in the literature. We assume that the nominal money supply “ $M$ ” is fixed. By such assumption, prices will be rising at the same percentage rate as the wage unit, it follow from the equation above that if real income is rising concomitantly with the rise in the general price level, the income velocity of money is also rising. In other words, if real income is rising continuously, the ratio of real cash balances to real income would be falling. Now to the cost of inflationist goods and services, the decline in the ratio of real cash balances to real income may be of no concern at all since velocity of money may have no independent significance on investment decision.

Ian (2003) [5] discussing the relationship between inflation and bank’s performance vis-à-vis investment decision noted that rational decisions by businessmen about production, investment, borrowing, cash management, wage settlements and international trade all require the use of information from the price system to make longer term decisions. Moore, (1980) [6] in his own study, found out that one deplorable impact of inflation is a political tendency for governments to react to inflation with wage and price controls. According to him, the implication of such government reaction is twofold; firstly, government itself is overwhelmingly responsible for the inflation it seeks to correct and secondly wage and price controls treat symptoms not causes of inflation. What they do is to just repress inflation, mask it, thereby causing shortages and distortions while allowing inflationary forces to become even more virulent. Corporate managers in this situation generally experienced a cost-price squeeze and in such a squeeze, many of them fled the regulated domestic market and shifted to unregulated markets abroad. This situation merely worsened the distortions in relative prices and the shortages endemic to the entire wage-price control era. Besides shortages, corporate managers had to contend with rampant demand, shipment delays, quality lapses, multiplying bureaucratic interferences and ultimately breakdown of the controls themselves. This breakdown in turn led to a rash of “catch-up” wage and price increases, which is confusing and disastrous to investment decision making. Khourg (1983) [7] in support of this assertion noted that the controls led not only to a profit squeeze, but to a capital investment squeeze. The upshot was that supply became tighter and tighter across the country, hence little or no investment. [8], in their own contribution noted that in any such event corporate financial managers may want to deflate their profit figures and confuse the public of the corporate profitability position which is not in real terms. These managers frequently declared such balloon profits just to impress the shareholders and given to believing with pride to “record” profits. Therefore, the economy suffers because of management’s desire to showcase good earnings (which turn out to be false profits) during an inflationary era.

Seizer (1989) [9] in his empirical study found out that the persistent high rate of inflation in some Western European countries and North America during the 1970s has led accountants to consider more carefully how to take the effects of inflation into consideration when determining a company’s cost of capital and evaluating investment projects as well as in the preparation of financial statement. He observed that the higher the rate of inflation the greater the present value of the money compared with future value of the same amount. The implication of this statement to decision making means that in the theory, the higher the rate of inflation the higher the rate of interest the investors will require if he is to be persuaded not to consume his income today but to invest money in return for receiving annual dividends or interest payments and the repayment of his investment in the future. Okafor, (1983) [10] asserted that such action of sacrificing present consumption to future investment is synonymous to economic growth, notwithstanding inflationary trends. Brain, (2000) [11] carried out an empirical study on the “Relationship between Inflation and Economic Growth” and his result revealed that it is easier to detect emerging changes in relative prices on both input and output prices when the general price

level is stable than when all prices are going up persistently. He further noted that a high average rate of inflation normally involves greater variations in individual price changes, hence low investment. Taking this to be correct, one can authoritatively say that inflation affects profitability in four ways thus; it changes the cost of funds used to finance an enterprise; it increases costs of labour, materials and the price of the product; it affects the tax bill to be paid and it causes shifts in demand patterns.

However, this issue of inflation affecting the profitability of corporate entities and the investment decision of such organizations can as well be traced to the surge of so many other theories from so many schools of thoughts aside from the one discussed above. In other words, the wider understanding of the impact of inflation on the performance (profitability) of organization and the effects of such influence on the lending decision of banks both in the emerging and industrialized economies is found in many and varied models of theories.

Some of these theories which this study tries to analysis include the following: Positivists', Negativists' and Neutralists' theories.

**The Positivists' Theory:** The proponents of this theory expressed that inflation has a positive significant impact on investment decision of organizations; hence inflation tends to encourage investment. The chief proponent of this theory was Griffiths (1979) [12] and one of his major arguments, is that inflation results in a more rapid economic growth as it tends to redistribute income from wages to profits for investment purposes. In this case the marginal propensity to consume out of profit is allegedly much lower than that of consumption, this leads to forced savings in the economy with a corresponding increase in investment and in the rate of economic growth. Going by this argument, inflation also increases the level of saving by maintaining Gross National Product (GNP) at its full capacity level. This view has been variously corroborated by other scholars like [13, 14 and 15] etc. For instance, Browne and Coxon (1981) [16] noted that inflation increases investment because it reduces the real rate of interest, which is relevant in investment decision. Still on this, Edward and Ping, 1999 [17] in their study on "Relationship Banking, Liquidity and Investment in Industrialized Economy" argued that rapid economic growth has taken place mainly in countries with high rate of inflation, hence a widespread belief that inflation and economic growth are positively and significantly related. This is a suggestive that there is a positive relationship between economic growth vis-à-vis investment and inflation, which applies that economic growth breeds inflation and inflation fosters economic growth through investment. Sequel to this finding, Bentsen (2000) [18] agreed that moderate rate of inflation may be the accomplishment of an increase in the creation of wealth through investment. In their own work, [19] noted that the government policy of economic expansion through increasing the money supply almost inevitably leads to increase demand, hence, an increase in production. Though, the expansion can lead to inflation, this may stimulate individuals to produce goods of real wealth instead of leaving their resources in depreciating money or as idle fund. Thus economic activities and the standard of living have in recent years risen appreciably in many parts of the world in greater competition for primary products and the consequence is increases in world prices. This theory concludes that inflation is an inevitable ingredient if the economic growth is to be achieved especially in emerging economies; hence, inflation does not discourage but encourages investment. The proponents of these theories expressed that the inflationary prone economy could impact real sector's economic growth through the catalytic effect of adequate fund injection and capital accumulation. Pioneer contribution of Eglantine (1982) [20] is of the view that inflation is a necessary condition for meaningful investment needed to achieve economic growth and development of any economy.

**The Negativists' Theory:** In contrast to the positivists' theory, the negativists' theory applied in this context as propounded by Hager (1977) [21] asserts that inflation is an enemy to savings, hence contributes adversely to profitability position of firms, thereby giving rise to low investment. According to Cameron, (1972) [22], a traditional criticism of this standard money supply-based theory is that inflation reduces the value of money and increases risk, hence low investment. This argument is correlated to the fact that inflation is a tax on money and revenue in the private sector of the economy is reduced because of such tax, hence little or no investment. This school of thought described the effect of inflation on profitability position of firms as being distorting on the firms performance and valuations of its capital and which in turn

affects the investment decisions of its management and investors. The contribution of [23] submitted that when unanticipated inflation occurs regularly, the degree of risk associated with investments in the economy is alarming and discouraging, because the increases in uncertainty makes investors reluctant to invest in capital or make long-term commitments. This theory believes that the effect of raising capital makes new investment relatively unattractive and this is a suggestive that the fear of resurgent inflation and the public policies it might call forth have beclouded the outlook and contribution to the weakness in the investment climate. The theory concludes that inflation exerts a negative influence not only on investment decision but on other economic performance indicators especially the gross domestic product (GDP) of the economy.

**The Neutralists' Theory:** The chief proponents of this theory were [24] and [25]. On their effort to reconcile the neutralist analysis of investment decision and inflationary effects assert that inflation has no visible impact on investment. The theory agreed that actually inflation is an un-impiously evil phenomenon but it has not been obviously proved by economists that inflation is totally a bad thing to any economy. It has often been argued for example, that a price level which is changing at a constant proportional rate and which is fully anticipated and acted upon by all economic actors acts as a good signal to investors for decision making. In support of this theory, [26] in his study on "*Business Cycles, Inflation and Forecasting*" noted that there is no convincing evidence of any clear picture whether positive or negative between inflation and the rate of economic development vis-à-vis investment in any economy. Based on this notion, this school warned that it is naïve to conclude that any economy is either blessed or harmed by inflation, until econometric calculations are made. Until then, no one can say categorically with impunity whether inflation is a helpful or harmful element to a specific entity's performance. Taken this to be true, the neutralists' theorists concluded that a firm's decision on investment is indifferent to inflationary effect, [27].

Summing up all these assumptions, the three schools seem to agree on one issue concerning the relationship between inflation and investment decision. Their point of agreement centers on the fact that a little amount of price increase motivates producers to produce more and such move is necessary for more investment vis-à-vis economic growth. But the major line of contrast lies on what should be the agreed trade-off between desired level and the point at which inflation becomes disastrous to investment and the economy at large. To buttress this notion, the study carried out by [28] revealed that rapid economic growth has taken place in countries with high rates of inflation and in countries with low rates of inflation. Though, this study was of ancient periods, but a more recent study by [29] on a "*Transaction Cost Approach to the Theory of Investment Decision*" suggests that an inflation of single digit of between 2% and 9% is ideal to bring a positive relationship between investment and economic growth. Whereas double digit inflation of 10% and above discourages investment hence retard economic growth. Based on this fact the policy makers should formulate the economic policy that should embrace moderate rate of inflation which can stimulate saving and encourage investment hence, economic growth.

**Measuring Inflation:** Inflation has already been defined as a period of persistence increase in prices of both goods and services over a period of time. In order to determine this increase in prices, a mechanism for measurement and analysis of such movement is very necessary. However, in most of the developing economies in which Nigeria is one them, because of poor database, analytical problem and inadequate storage system, the price level vis-à-vis the inflation figures published are not reliable in most cases. The rate of inflation is stated as percentage increase in prices of any given data as compared to the same data of previous year. [30], suggested three main types of price indices which are often used to measure inflationary effects in an economy. These include; Consumer Price Index (CPI), Whole Price Index (WPI) and Implicit Price Index (IPI) equally known as the GDP deflector. There is always the problem as to which method provides the best statistical approach towards the measurement of inflation. Conceptually, the Implicit Price Index (the GDP Deflector) provides the best measure of inflation because it is the only index that measures the overall price movement of goods and services in the country. In other words, the index measures price behaviour of the gross domestic products which is the performance indicator of economic growth. To be specific, out of the three indices, the GDP deflector is most reliable since

it covers prices at different stages of production; from raw materials to finished goods stage. [31], suggested that the most commonly way to measure the overall price level is the Consumer Price Index (CPI). From the standpoint of consumer welfare, the index is the most useful because it provides some indications as to the extent to which consumers are being affected by price changes thereby communicating the impact of the price changes (inflation) in the real income to consumers. In support of this assertion, [32], concurred that the GDP implicit deflator is a measure of the price level of all final goods and services, which enter the GNP of both private and public sectors. As a result, its coverage and usage is much widely acceptable than either of the other indices. The index connotes the ratio between the current money value of Gross National Product (GNP) and current real value of Gross Domestic Product (GDP). This is expressed mathematically as the ratio between GDP at current price and GDP at constant prices multiplied by 10.

The equation is written thus:

$$\text{GDP Deflector} = \frac{\text{GDP at Current Price} \times 100}{\text{GDP at Constant price 1}}$$

Table 1 below displays the computed consumer price index using a fixed set of weights for a period extending up to 10 years, (2000-2014).

**Research Method:** We estimate linear regression models to attempt to relate inflation to reported profit of commercial banks in Nigeria and its implication on lending decision of banks. We draw the initial population of banks for this study from issues of CBN on all the banks operating in Nigeria, from 2004 to 2014 (ten-year period).Applying judgmental method of sample selection, our sample size is narrowed to the four stand-alone banks and four merged banks following the 2004 bank consolidation reform that took place in the Nigerian banking industry. The stand-alone banks included in our sample are; Eco Bank Plc, Chartered Bank Plc, Guaranty Trust Bank Plc and Zenith Bank Plc. While the merged banks are; Access Bank Plc, First Bank Plc, Union Bank Plc and UBA Bank Plc. In overall, our sample captures approximately 70 percent of all commercial banks quoted in the Nigerian Stock Exchange operating in Nigeria. The study adopted the Ex-Post Facto research design, hence the data used were generated from the annual financial statement of the sampled banks and data from CBN Statistical bulletin of various issues.

**Techniques of Data Analysis:** To analyze the data, we applied Ordinary Least Squares (OLS) to panel series of data to test the two hypotheses as seen in the work of [33]. The signs of the coefficients were relied upon in describing the direction and strength of linear relationship between variables. While the t-statistics and p-value were relied upon in determining the level of significant effect among inflation, reported profit and lending volume.

**Model Specification:** Our models build on the existing empirical literatures of [34] and [35] whereby the linear regression model was used for the hypothesis as shown thus:

$$Y = \alpha + \beta X + \epsilon \tag{1}$$

where:

- Y = Dependent variable
- X = Independent Variable
- $\alpha$  = Constant
- $\beta$  = Coefficient of independent variable
- $\epsilon$  = Error margin

Table 1: Shows the Consumer Price Index (CPI) in Nigeria between 2000 and 2014

2000	3778.4
2001	4401.7
2002	4937.3
2003	6112.9
2004	6729.3
2005	7927.1
2006	7999.3
2007	8002.2
2008	8138.4
2009	8644.7
2010	7837.3
2011	8812.9
2012	9167.3
2013	9927.1
2014	9868.1

Source: CBN Statistical Bulletin of various issues

**Restating the Hypothesis:** Lending decision (lending volume) of banks is not affected by inflationary effect

$$LV = \alpha + \beta Inf + \epsilon \tag{3}$$

where:

LV = Lending volume-dependent variable

Inf = Inflation - independent variable

$\alpha$  = Constant

$\beta$  = Coefficient of independent variable

$\epsilon$  = Error margin

**Test of the Hypothesis:** There is no positive and significant relationship between inflation and the investment decision (lending volume) of commercial banks operating in Nigeria. In testing this hypothesis, inflation was regressed against the lending volume of the eight (8) selected commercial banks used as sample in this study. The results are presented in Table 1 as shown thus:

## RESULTS

Table 2: Summarized Regression Results for the Hypothesis

	Aggregate	First Bank	UBA Bank	Union Bank	Access Bank	Zenith Bank	Eco Bank- Plc	Guaranty Chartered	StandardChartered
R	0.128	0.486	0.302	0.313	0.405	0.076	0.212	0.432	0.402
R <sup>2</sup>	0.017	0.198	0.086	0.092	0.122	0.005	0.066	0.186	0.162
RGSS	1.604E7	6.331E9	5.996E6	2.122E7	1.998E3	3.902E7	2.101	6.236E8	5.876E5
RSS	8.888E6	2.991E9	6.894E5	7.614E8	5.556E4	8.124E6	3.111E	2.984E6	2.899E8
F-v	0.084	0.702	0.412	2.882	2.008	0.009	0.242	0.612	0.574
Sig.	0.916	0.511	0.713	0.098	0.088	0.976	0.084	0.506	0.468
$\alpha$	-182.442	-221.412	-331.311	-212.122	-182.214	323.211	222.11	-201.213	-214.442
$\beta Inf$	6033.922	1883.392	1200.196	1164.202	2022.123	1114.11	133.41	1784.642	1764.333
DW	4.008	4.212	3.046	1.984	3.993	1.762	1.442	4.142	3.686
t-val	0.324	0.944	0.622	0.446	0.866	0.542	0.522	0.921	0.822

Source: Authors' Computation

Where in testing the hypothesis the summary table has the following abbreviations explained thus:

Table 3: Abbreviations

R	= Regression Coefficient	Sig.	= Significance value of F-value
R <sup>2</sup>	= Coefficient of determination	$\alpha$	= Model Constant
RGSS	= Regression Sum of Squares	$\beta$ Inf	= Coefficient of Independent variables
RSS	= Residual Sum of Squares	DW	= Durbin Watson value
F-v	= F (ANOVA) value	t	= t-value

Regression Results for the Test of the Hypothesis

Table 4: Descriptive Statistics

	Mean	Std. Deviation	N
Lending V	8.6621	3.21452	8
Inflation	10.3246	2.42453	8

Table 5: Correlations

		Lending-V	Inflation
Pearson Correlation	Lending-V	1.000	.422
	Inflation	.422	1.000
Sig. (1-tailed)	Lending-V	.	.188
	Inflation	.188	.
N	Lending-V	8	8
	inflation	8	8

Table 6: Model Summary<sup>b</sup>

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.422 <sup>a</sup>	.180	-.110	3.34452	1.220

a. Predictors: (Constant), inflation

b. Dependent Variable: lending volume

Table 7: ANOVA<sup>b</sup>

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	12.112	1	10.180	.878	.343 <sup>a</sup>
	Residual	36.224	3	10.422		
	Total	48.336	4			

a. Predictors: (Constant), inflation

b. Dependent Variable: lending volume

Table 8: Coefficients<sup>a</sup>

Model		Un-standardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	T	Sig.
1	(Constant)	3.246	5.363		.582	.524
	Inflation	.422	.446	.426	.866	.368

a. Dependent Variable: lending volume



Table 9: Residuals Statistics <sup>a</sup>

	Minimum	Maximum	Mean	Std. Deviation	N
Predicted Value	5.3462	10.8813	8.6420	1.52323	8
Residual	-2.66422	3.7022	.00000	2.85132	8
Std. Predicted Value	-1.322	1.393	.000	1.000	8
Std. Residual	-1.121	1.112	.000	.828	8

a. Dependent Variable: lending volume

From the table, R, the correlation coefficient, which has a value of (0.0422), indicates that there is a positive relationship between the dependent variable (lending volume) and the independent variable (inflation). R square, the coefficient of determination shows that 18% of the variation in the dependent variable is explained by the model. The Durbin Watson value of (1.220) is an indicative that there is no autocorrelation.

The regression sum of squares (12.112) is less than the residual sum of squares (36.224) which indicates that fewer of the variations in the dependent variable are explained by the model. The significance value of the F statistics (0.343) is greater than (0.05), this is an indicative that the variation explained by the model is due to chance. The inflation coefficient of (0.422) revealed that there is a positive relationship between inflation and lending volume of commercial banks, though, is not statistically significant with 't' = (0.866). These results reveal that inflation has positive but not significant impact on the lending volume of bank. Hence, we accept the null hypothesis which states that there is no significant positive relationship between inflation and lending decision (proxy by lending volume) of commercial banks operating in Nigeria.

### DISCUSSION

The overall result revealed that there is positive but not significant relationship between inflation and the investment decision proxy by lending volume of commercial banks operating in Nigeria. This implies that the impact of inflation on investment decision for all the Nigerian commercial banks was positive but not statistically significant. To this end, investment decisions within the profitability position of Nigerian banks have no direct relationship with inflation within the period under review. The theory agreed that actually inflation is an un-impiously evil phenomenon but it has not been obviously proved by economists that inflation is totally a bad thing to any economy. It has often been argued for example, by Chikwe, (2005) [15] in Griffiths, (1977) [12], that a price level which is changing at a constant proportional rate, fully anticipated and acted upon by all economic actors acts as a good signal to investors for decision making. There is no convincing evidence of any clear picture whether positive or negative, between inflation and the rate of economic development and investment. The theory frowned that it is naïve to conclude that any economy is either blessed or harmed by inflation in its entirety or totality alone. Hence, no one can say categorically without econometric findings whether inflation is a helpful or harmful element to a specific entity's investment decision making. Aligning this with our finding which shows positive but no significant relationship between inflation and investment decision (proxy by lending volumes) of banks, the neutralists' theorists' conclusion which stated that a firm's decision on investment is indifferent to inflationary effect is correct.

### CONCLUSION AND RECOMMENDATIONS

However, our study showed plausible indications that inflation impacts positively on the investment decision of corporate entities like banks but the impact is not significant. In other word our results reveal that investment decision of (lending volume) of commercial banks in Nigeria is impacted upon positively by Inflation. However, this impact is not significant, hence, does not influence lending decision of banks. Hence, our paper concludes that inflation, though positively, has not significantly influenced the investment decision of Nigerian commercial banks for the periods under

review. Therefore, in order to maximize the benefits of this knowledge, we recommend that CBN should consider the policy option that would encourage investors especially banks to carry-go their investment plans (lending decision) irrespective of inflationary symptoms in the economy.

**Policy Implication:** Both our theoretical and empirical findings revealed that a little amount of price increase motivates producers to produce more and such move is necessary for more investment needed for economic growth. But the major line of contrast lies on what should be the agreed trade-off between desired level and the point at which inflation becomes disastrous or desirous to investment and the economy at large. Based on these facts, moderate rate of inflation becomes a welcome device to achieve economic growth through investment. Therefore, the policy implication lies on the obvious necessity for the policy makers to formulate the economic policy that should embrace moderate rate of inflation which can stimulate savings and encourage investment hence, economic growth.

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