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A Causal Relationship between Corporate Investment and Inflation: empirical investigation from WAMZ economy

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1. Introduction

The major challenge in development plans is to achieve higher growth rate of real GDP through heavy reliance on domestic fixed capital formation where macroeconomic authorities are able to manage and control inflation rate in the economy effectively. The effects of inflation on the economy are diverse and can be both positive and negative. The negative impacts are most pronounced and comprise a decrease in real value of money and other monetary variables over time. Persistent increase in the rate of inflation discourages domestic investment and domestic savings which in turn cause shortages of goods as consumers begin to hoard out of anxiety that prices may further raise in future. Financial theorists believe that there are direct and indirect aftermaths of inflation in every sector of the economy ranging from exchange rate, investment, employment interest rate, stock market among others.

A highly inflationary environment adversely impacts the level of corporate investment. Inability of monetary authority to control the rate at which inflation escalates in the economy transmits into interest rate forcing creditors to hike their lending rate in order to compensate for the stinging inflation. Aside from that, the market also rations credits which limits the availability of capital investment and reduces the level of real activity. As real activity deescalates in the economy, firms and industries reduce their labour force which might result to structural unemployment and cyclical unemployment in the economy. As the level of unemployment increases, revenue generation through both personal income taxes and corporate profit taxes

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decrease. The fall in revenue generation could adversely affect all things being equal, adequate provision of infrastructural facilities and social amenities which could ginger corporate investment in the economy.

In most developing economies, unemployment increases due to persistent escalation of inflation which weakens the level of domestic investment which in turn depresses economic growth. The consequences of persistent rise in inflation include discouragement of foreign direct investment, domestic capital flight; increase in crime rate, balance of payment disequilibrium, increase in national debits etc contribute negative effects on the level of domestic corporate investment and economic growth of developing economies like WAMZ economies. The more an economy is having challenges in these macroeconomic variables, the more the corporate investment continue to be weak which will not promote the real growth rate of gross domestic product and unemployment rate further becomes fundamental economic issue in the long run.

In a nutshell, there seems to be strong consensus that high rate of inflation can cause unemployment through retrenchment of workers when firms and industries find it difficult to cope with existing rate of inflation which in turn discourages expansion of existing plants, increase in capital stock and expansion of domestic investment in the economy. Due to this, this calls for study towards finding the level of impact of inflation on corporate investment in developing countries, like WAMZ economies. However, in spite of various studies towards assessing currency union in West African Monetary Zone, from our findings,there is hardly any concrete empirical study that has been investigated to assess the causal relationship between inflation and corporate investment of West African Monetary Zone economies. Studies such as Onwe and Raji (2014) examined the impact of inflation on corporate investment in sub-Sahara West African countries. KofiAhortor and Adenuti(2009) conducted a study on inflation, capital accumulation and economic growth on thirty import dependent developing economies including Ghana and Sierra Leone. Taiwo (2011) tested the relationship between investment, inflation and economic growth on Nigerian economy, where inflation and investment were independent parameters. Cizkowicz and Rzonca (2012) carried out panel data approach in assessing how harmful is inflation on corporate investment in OECD economies and finally, Olanipekun and Akeju (2013) investigated the effect of money supply and inflation on capital accumulation in Nigeria using error correction model. Consequently, a research

gap exists for assessing empirically the causal relationship between inflation and corporate investment on West African Monetary Zone.

2. Trends in Inflation and Corporate Investment in West African Monetary Zone

The study analyses the trends in inflation and corporate investment among the countries selected in the zone. The analysis is examined country by country which is as follows:

Gambia: Table A of trend in inflation and corporate investment of Gambia, the ratio of investment to output level between 1981 and 185 accounted for average of 20 % where the inflation rate in economy was 13.6% within the period. A further increase in inflation with average of 22.5% five later indicated an average fall in investment by 18.6% between 1986 and 1990. It was interesting that 1991 to 1995, there was a mighty fall in inflation rate with 6.6% at average where investment within the periods depressed averagely at 12.4%. The monetary authority played all its major role to see that fall in inflation could boost the level of investment despite that there was still a further fall in investment between 1996 and 2000 with a shock of 5 .3% where inflation rate within the time recorded an average of 2.03%. In year 2000, the countries within West African countries established West African monetary zone with some criteria to be met before launching common currency in the zone. Gambia happened to operate a less 10% inflation rate where 9.4% was established between 2001 and 2005 with fantastic jumps in the level of investment at average of 32.9%. As the economy is trying to reduce inflation rate in order to operate single digit the more it weakens the level of investment where 5.3% (inflation) and 19.9% (investment) were reported between 2006 and 2010. The study discovered that between 1981 and 2011, Gambia recorded an average of 9.6% for inflation and 18.2% for investment-GDP.

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Table A: Trend in Inflation and Investment

Range of years	Average Inflation	Average Iinvestment
1981-1985	13.6	20.0
1986-1990	22.5	18.6
1991-1995	6.64	12.6
1996-2000	2.03	5.3
2001-2005	9.4	32.9
2006-2010	5.3	19.9
1981-2011	**9.6**	**18.2**

Ghana: The economy of this country has suffered a lot due to high rate of inflation before introduction of structural adjustment programme was introduced with the belief that such programme could improve the economy. In this study, table B revealed that between 1981 and 1985 in Ghana, it was very sad that an average rate of inflation was 62% when the rate of investment reported showed just an average of 5.7%. With effective monetary policies between 1986 and 1990, the study noticed that there was an average rate of 31.7% of inflation with improved investment rate of 11.7% which was very encouraging. This might be attributed to structural adjustment programme within those periods. There was further drop in inflation rate five year later to 27.5% between 1991 and 1995 where constant level of investment was recorded, an average of 11.2% just by half percent difference with previous period. From 1996 to 2000, investment rate in the economy stimulated with further fall in inflation level down to 25.3% where the investment jumped up to 22%**.** Five years later again, there was drastic fall in inflation from 25% to 20% between 2001 and 2005 with reported increase in investment level from 22% to 25 .2%. It implies the economy improved towards joining the proposed currency zone. Despite that the country has not met the single digit inflation criteria, the report between 2006 and 2010 signified that the inflation rate at average stood at 13.6 percent double digit which failed to impressed investment level in the economy in those periods. The study noted that that inflation level and investment were averaged at 29.4% and 17.8% between 1981 and 2011 over 31 years.

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Table B: Trend in Inflation and Investment

Range of years	Average Inflation	Average investment
1981-1985	62.0	5.7
1986-1990	31.7	11.7
1991-1995	27.5	11.2
1996-2000	25.3	22.0
2001-2005	20.4	25.2
2006-2010	13.6	21.5
1981-2011	**29.4**	**17.8**

Nigeria: From table C, data of this economy showed that the inflation level has a significant impact on the direction of investment. From the trend examined the study unfolded the average level of inflation rate to be 15.3% between 1981 and 1985 while an average of 23.2% was noticed in investment-GDP ratio. An increase in the inflation by an average of 25.9% in-between 1986 and 1990 weakened the investment level by an average rate of 13.3% in those periods which happened to be the period of structural adjustment programme. The implication was that the programme failed to improve investment and macroeconomic instability in the economy. A further jump of inflation occurred again between 1991 and 1995 by an average rate of 48.9% with a further depression in investment level with average of 11.7%. With help of effective monetary regime between 1996 and 2000, the regime ensured drastic decrease in inflation level by 12% where investment-GDP ratio continued with an average decrease of 7.6%. In year 2000, the country was also among Anglophone West African nations that signed an agreement in establishing common currency in their

region where single digit inflation was proposed as one of the primary criteria. The study discovered that between 2001 and 2005, the average rate of inflation accelerated further to 18.3% in which the change in investment rate was mildly different from previous range of period. It could be observed that after twenty four years, the economy witnessed a slight increase in investment-GDP ratio by an average rate of 9.9% between 2006 and 2010 whose inflation average rate decelerated by 10 percent. The implication was that single digit inflation may enhance the level of investment rate if the authorities ensure that effective and efficient macroeconomic policies are put in place. From the trend analysis, the study noted that there was presence of 21% and 12.1% on average between 1981 and 2011 with respect to inflation and investment respectively.

Table C: Trend in Inflation and Investment

Range of years	Average Inflation	Average Investment
1981-1985	15.3	23.2
1986-1990	25.9	13.3
1991-1995	48.9	11.7
1996-2000	12.2	7.6
2001-2005	18.3	7.5
2006-2010	10.1	9.9
1981-2011	**21.0**	**12.14**

Sierra Leone: Table D is for Sierra Leone, this is an economy which had experienced civil war for many years where inflation has deeply depressed the entire sectors of the economy. Data with respect to consumer price index was not reported but the study adopted deflated inflation. The study discovered that from 1981 to 1985, the average inflation rate between those periods was 30.9% when the reported investment-GDP ratio which was 13% on average. Due to escalation, the inflation rate rose to 88.2% between 1986 and 1990 with further drop in investment rate at average rate of 9.3%. Despite the escalation, inflation experienced a drastic fall between 1991 and 1995 whose average fall was 59.2% but there could not be serious investments. The level of investment between 1991 and 1995 was marginally decreased by an average of 8.3% when compared with previous time. From 1996 to 2000, inflation rate de-escalated and reported an average of 15% whereby the economy discouraged people from investing which continued to depress investment rate in the economy.

After the civil war, the country also participated in the agreement towards establishment of common currency among Anglophone West African nations. Since then the economy has been trying towards ensuring that single digit inflation rate is obtained so as to encourage investment in the economy. The economy reported an average of 10.8% inflation rate between 2006 and 2010 where ratio of investment to GDP was almost in the level magnitude with inflation rate in that period. In summary, the average reported between 1981 and 2011 revealed that inflation possessed 37% which worsened the investment level, where the average rate of investment-GDP ratio was 10.7%.

To conclude this analysis in this aspect, only, Gambia has a single digit inflation rate while other countries have been running the economy with macroeconomic instability particularly high rate of inflation which is not less than 20% averagely between 1981 and 2011. With 30 years for the four countries, the average level of domestic investment falls between 10% and 18% but Nigeria recorded an average of 18 percent. Their levels of domestic investments within the period of the study showed that Nigeria reported the highest with average rate of 16% followed by Ghana with 13% and Gambia with 11% while Sierra Leone with 4% which could be attributed to its civil war.

Table D: Trend in Inflation and Investment

Range of years	Average Inflation	Average Investment
1981-1985	30.9	13.1
1986-1990	88.2	9.3
1991-1995	59.2	8.3
1996-2000	15.2	4.2
2001-2005	22.5	11.2
2006-2010	10.8	12.6
1981-2011	**37**	**10.73**

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3. Methodology

3.1 Data and Data Sources.

The study is carried out for four West African Monetary Zone countries for the period 1980 and 2011. The four countries covered in the study are Gambia, Ghana, Nigeria and Sierra Leone. In this study, we measured corporate investment captured as gross fixed capital formation and inflation is measured as growth rate of consumer price index. The data used are all sourced from World Development Indicators (WDI), World Bank.

Following Akinlo and Egbetunde (2010) that some macro-variables could have great impact on one and another i.e. inflation and corporate investment can impact each other and that their omission could bias the direction of causality between inflation and corporate investment. In view of this, we included some control variables: credit (loans provided to private sector by financial institutions), exchange rate (nominal exchange rate), money supply, gross domestic product (economic growth rate at current market price), government expenditure and trade (import+export/GDP) to avoid simultaneous bias (Gujarati, 1995) in our regressions

3.2 Multivariate Co-integration Analysis and Error Correction Modelling

This study adopts the cointegration and error correction methodology documented by (Banerje, et. al 1993;Engle and Granger 1987, Johansen 1988; Johansen and Juselius1990).The Johansen (1988) multivariate cointegration model is based on the error correction representation given by:

$$\Delta X_t = \beta + \sum_{\rho-1} \Gamma_i \Delta X_{t-i} + \Pi X_{t-i} + e_t \quad \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots eq_1$$

where Xt is an (nx1) column vector of ρ variables, β is an (nx1) vector of constant terms, Γ and Π represent coefficient matrices, Δ is a difference operator, and $\varepsilon t \tilde{} N(0, \Sigma)$. The coefficient matrix Π is known as the impact matrix, it contains information about the long run relationships. Johansen's methodology requires the estimation of the VAR equation 1 and the residuals are then used to compute two likelihood ratio (LR) test statistics that can be used in determination of the unique cointegrating vectors of Xt. The cointegrating rank can be tested with two statistics: the trace test and the maximal eigenvalue test.

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3.3 Vector Error Correction Model (VECM)

The error correction version pertaining to our variables incorporated in our stud y is stated below:

$$\Delta \mathbf{loginf} = \mathbf{b_0} + \mathbf{b_1}\Delta \mathbf{logC_t} + \mathbf{b_2}\Delta \mathbf{loginv_{(t-1)}} + \mathbf{b_3 ecm_{(t-1)}} + \mathbf{e_t} \quad \mathbf{eq_2}$$

$$\Delta \mathbf{loginv} = \mathbf{a_0} + \mathbf{a_1}\Delta \mathbf{logC_t} + \mathbf{a_2}\Delta \mathbf{loginf_{(t-1)}} + \mathbf{a_3 ecm_{(t-1)}} + \mathbf{e_t} \quad \mathbf{eq_3}$$

where ecm_{t-1} is the error correction term and et is the mutually uncorrelated white noise residual.The coefficient of the ecm variable contains information about whether the past values of variables affect the current values of the variables under study and Ct is the control variables. The size and statistical significance of the coefficient of the error correction term in each ecm model measures the tendencies of each variable to return to the equilibrium. A significant coefficient implies that past equilibrium errors play a role in determining the current outcomes. The short run dynamics are captured through the individual coefficients of the difference terms. Inflation(inf) does not Granger cause corporate investment(inv),if all b2 = 0,and corporate investment (inv) does not Granger cause inflation (inf) if all a2 = 0.These hypotheses can be tested using standard F statistics (Mehra,1994).

4. Results and Discussion

4.1 Unit Root Test

The data were subjected to stationary test using Augmented Dickey Fuller(ADF) test in order to establish their univariate time series behaviour to determine the basic unit observation whether the sequence estimation should use the level, first or second difference of each time series before conducting estimation. Thus, first differencing is sufficient is sufficient for these macro-variables

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4.2 Co-integration Test

	Gambia		Ghana		Nigeria		Sierra Leone	
Number of cointegrating equations	**Trace Statistics**	**Max-eigen statistics**	**Trace statistics**	**Max-eigen statistics**	**Trace statistics**	**Max-eigen statistics**	**Trace statistics**	**Max-eigen statistics**
r = 0	262.2*	159.8*	390.9*	132.0*	280.3*	102.2*	434.4*	220.7*
r = 1	176.4*	125.6*	258.9*	104.8*	178.1*	63.1*	213.6*	73.1*
r = 2	126.3*	95.8*	154.1*	54.1*	115.6*	42.6*	95.8*	53.5*
r = 3	84.8*	69.8*	100.6*	41.3*	72.4*		69.8*	43.7*

Table E: Result of Co-integration Test

The table E summarises the outcome of Johansen co-integration test after considering the stationary test. From, the Trace statistical test, it reveals that all the four countries in the study attained four co-integrating equations of one per-cent statistical relationship of significance level. The Maximum Eigen value statistics disclosed five per-cent significance levels in all the economies in the study, in which there is existence of four co-integrating equations each in favour of three countries such as Ghana, Gambia and Sierra Leone except Nigeria with existence of three co-integrating equations. When co-integration exists, the Eagle-Granger Theorem establishes the encompassing power of the error correction model over other form of dynamic specification. The results of the error correction model and the Granger causality tests are presented in the table V below. The study estimated equation two and three, since the error correction representation can be used to test for Granger Causality test.

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4.3 Error Correction Tests

Table F: Vector Error Correction Model and Granger Causality

Gambia				**Ghana**			
Inflation		**Investment**		**Inflation**		**Investment**	
C	-0.17(-1.56)**	C	-0.13(-2.00)*	C	-0.09(-1.20)	C	0.05(1.79)**
Infl(-1)	-0.15(-1.00)	Invest(-1)	-0.22(-1.50)***	Infl(-1)	0.53(3.31)*	Invest(-1)	0.44(2.01)*
Credit	0.76(1.86)**	Credit	-0.81(-2.88)*	Credit(-1)	1.04(2.12)*	Credit(-1)	-0.31(-1.24)
Exch.rate	-3.22(-2.15)*	Exch.rate	-4.21(-3.60)*	Exch.rate (-1)	0.18(-0.79)	Exch.rate (-2)	0.35(3.28)*
Money SS	-0.10(-0.81)	Money SS	0.01(0.19)	Money SS	-1.97(-2.63)*	Money SS	-0.42(-1.35)***
GDP(-1)	-0.44(-3.53)*	GDP	0.10(2.18)*	GDP	0.38(1.61)***	GDP(-1)	-0.18(-1.89)**
Govt	-0.14(-0.40)	Govt	1.02(2.02)*	Govt	0.12(0.18)	Govt	-0.15(-0.56)
Trade(-1)	0.61(3.16)*	Trade	0.44(1.39)***	Trade	1.36(2.27)*	Trade	0.98(3.26)*
Invest.(-1)	0.61(-3.16)*	Infl.(-1)	-0.16(-1.82)**	Invest.(-1)	-0.51(-1.31)***	Infl.(-1)	-0.12(-1.77)**
Ecm(-1)	-0.97(-3.70)*	Ecm(-1)	-0.85(-3.39)*	Ecm(-1)	-1.32(-5.82)*	Ecm(-1)	-1.24(-5.53)*
R-squared DW F-statistics	0.92 1.75 13.2	R-squared DW F-statistics	0.87 1.98 7.35	R-squared DW F-statistics	0.80 2.06 7.8	R-squared DW Fstatistics	0.80 2.8 6.9
F-statistic infl.→invest.	**1.94**	**F-statistic invest.→infl.**	**2.31***	**F-statistic infl.→invest**	**0.34**	**F-statistic invest.→infl**	**3.8***

From the error correction terms in both equations, the study discovered that their associated coefficients are negative and statistically significant at 1% except Sierra Leone at 5 % with respect to inflation equation while investment equation discloses that associated coefficients are also negative and statistically significant at 1% among the selected economies in zone except Nigeria at 10%. The coefficients of error correction terms with respect to inflation equation are -0.97%, -1.32%, -1.23% and 0.51% for Gambia, Ghana, Nigeria and Sierra Leone respectively. The error correction term coefficients of investment equation for Gambia, Ghana, Nigeria and Sierra Leone are -0.85%, -1.24%, -0.18% and -1.5% respectively. This indicates a feedback for

inflation equation of the previous year disequilibrium for the zone ranges between 0.51% and 1.32% and a feedback for investment equation of the previous year disequilibrium for selected countries ranges between -0.18% and -1.5%.

Nigeria				**Sierra Leone**			
Inflation		Investment		Inflation		Investment	
C	-0.15(-2.31)*	C	-0.04(-1.63)***	C	0.02(0.28)	C	0.05(0.57)
Infl(-1)	0.52(3.30)*	Invest(-1)	0.14(0.78)	Infl(-1)	-4.19(-2.54)*	Invest(-1)	0.32(2.03)*
Credit	1.13(2.99)*	Credit	0.31(2.25)*	Credit	-0.55(-1.30)***	Credit(-1)	-4.46(-0.95)
Exch.rate	1..49(2.34)*	Exch.rate(-1)	0.40(1.80)**	Exch.rate(-2)	1.46(2.20)*	Exch.rate(-1)	1.31(2.52)*
Money SS	-0.48(-3.07)*	Money SS	-0.20(-3.26)*	Money SS(-1)	0.88(3.35)*	Money SS(-1)	-0.57(-2.77)*
GDP	-0.01(-0.17)	GDP	0.20(4.30)*	GDP	-0.04(-2.64)*	GDP	0.02(1.51)***
Govt	-0.85(-1.86)**	Govt	-0.13(-1.47)***	Govt	-2.42(-2..40)*	Govt	-0.31(-0.42)
Trade	-0.79(-2.39)*	Trade(-1)	0.18(1.17)	Trade(-1)	0.95(1.77)**	Trade	0.79(1.61)****
Invest.(-1)	0.45(1.12)	Infl.	-0.14(-2.70)*	Invest.	0.67(3.13)*	Infl.(-1)	-0.46(-3.45)*
Ecm(-1)	-1.23(-8.00)*	Ecm(-1)	-0.18(-1.30)***	Ecm(-1)	0.51(1.81)**	Ecm(-1)	-1.50(-3.64)*
R-squared DW F-statistics	0.92 2.3 11.8	R-squared DW F-statistics	0.87 3.1 6.9	R-squared DW F-statistics	0.87 2.0 11.4	R-squared DW F statistics	0.80 2.8 6.9
F-statistic infl.→invest.	0.5	F-statistic invest.→infl.	3.3*	F-statistic infl.→invest	8.9*	F-statistic invest.→infl	0.80

Table G: Vector Error Correction Model and Granger Causality cont) *, ** and * indicate 1%,5% and 10% significance level respectively**

4.4 Causality Tests

The evidence from the standard F-statistics with respect to causal relationship between inflation and investment, table D reveals that there is presence of unidirectional causality and total absence of bi-directional causality among the

selected economies in the zone. The outcome of the result indicates that inflation does not Granger causes investment among the selected countries but Sierra Leone is exceptional. The implication is that inflation promotes investment in Sierra Leone i.e. information about inflation in the past can explain the behaviour of investment in the present time. Furthermore, the results also display that investment Granger causes inflation among selected countries in zone except Sierra Leone. It signals that past information about investment contributes to present behaviour of inflation in those economies.

4.5 Short Run Dynamics

The individual parameters are captured by the short term dynamics except ECM which has been analysed prior to this, the results indicate that some parameters have expected signs and some coefficients are significant. First lag of Inflation indicates significant effect on the selected nations except Gambia. With respect to Ghana and Nigeria; it is positive and in the case of Sierra Leone is negative. There is also significant relationship between investment and its first lag among the selected countries except Nigeria; it is positive in case of Ghana and Sierra Leone and reverse is the case of Gambia. With respect to investment first lag on inflation, the results reveal that significant correlations exist in all the countries except Nigeria and positive signs are observed except Sierra Leone with negative sign. From investment equation, first lag of inflation shows that all the four countries have negative signs which are statistically significant.

There is an indication that credit to private sector is statistically significant on the rate of inflation in the zone which promotes the level of inflation except in Sierra Leone with negative sign and still significant. Effect of credit to private sector on investment is negative among the countries except Nigeria but there are significant effects in Gambia and Nigeria. It implies that credit made available to private sector of those economies has not contributed to the growth of investment level of the economies.

Exchange rate has significant impact on both parameters. It has positive effects on investment in the zone except on Gambia with negative impact. It implies that depreciation of the local currencies reduces the level of investment in Ghana, Nigeria and Sierra Leone. The exchange rate also impacts the level of inflation significantly excluding Ghana but the reports obtained indicate negative relationship exist between inflation and exchange rate in Gambia and positive relationship exists among other

countries. Money supply is significantly related to inflation in the zone except Gambia where the parameters have negative relationship with respect to Ghana and Nigeria which implies that the economies are trying to ensure financial development depresses the inflationary pressure but reserve is the case of Sierra Leone. This money supply is negatively and significantly related to investment among the selected countries except Gambia. It indicates that financial development has not been contributing towards investment in the zone but depresses its growth within the periods under review.

External trade has an economic impact on the level of inflation significantly among the nations. A percentage change in trade contributes to inflationary pressure which might be attributed to excess of import over export on countries selected except Nigeria with reserve case. There is positive and significant relationship between investment and trade among the selected nations except Nigeria where it is not statistically significant. Expansion of trade can improve the investment level of the zone.

Output growth is negatively and significantly related to inflation but there is reserve in the case of Ghana and Nigeria where it is not statistically significant in Nigeria but it is negative relationship and it is statistically significant and positive in Ghana. Output growth is observed to be significantly and positively related to investment except Ghana having negative impact on investment. It is tantamount to economic theories that output growth improves the level of investment in an economy. The economic impact of government spending on inflation level shows that there is negative and significant correlation on Nigeria and Sierra Leone while such relationships are not found in Gambia and Ghana. The effect of government on investment is found to be statistically significant in Gambia and Nigeria with positive effect and negative effect respectively while in other economies; the relationship is found to be negative and insignificant.

5. Conclusion

There are studies on the impact of inflation on domestic or corporate investment while it is hardly to see a study that examines the causality links between inflation and corporate investment which is the research gap of the study to fill for West African Monetary Zone over the period 1980 – 2010. The study analysis suggests that:

i. there is presence of long run relationship among the time series data in the zone,

ii. there is presence of uni-directional causal relationship running from corporate investment to inflation in the zone except Sierra Leone

iii. there is also uni-directional causal relationship running from inflation to corporate investment in the case of Sierra Leone only.

iv. the study lacks bi-directional causal relationship between inflation and corporate investment in the zone.

v. the error correction models are statistically significant and negative signs are observed in both equations for the zone.

From the results presented in this paper it could be argued that financial reforms and policies should be established in order to promote financial market development. Such reforms and policies should be adopted and must become the utmost priority in the WAMZ economies for the monetary policy to be effective in influencing economic activities which in turn enhances investment in the zone. Monetary authorities in the WAMZ economies must implement policies that would attract investment into non-bank financial intermediaries such stock markets which are expected to serve as alternative source of raising funds for investment and encourage competition in the financial system. Furthermore, authorities need to pay proper attention to both capital and money markets

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