

THE EFFECT OF INTEREST RATE REGULATION ON CREDIT EXTENSION TO SMEs IN NIGERIA

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ABSTRACT

This study assessed the effects of interest rate regulation on credit administration SMEs in Nigeria in a twenty-year period (1994-2013). To accomplish this, the trends of interest rate and credits to SMEs were analyzed to determine the relationship between interest regulation and credit administration; then, the extent to which interest rate influences credits extended to SMEs and the nature of the effects were evaluated. Secondary data obtained from CBN statistical bulletins were employed for the study, which showed the average interest rates for the period of study. It also showed the trend of loans extended to SMEs. There was a positive, but weak correlation (9%) between both variables. Furthermore, the R^2 (0.8%) is indicative of how little the independent variable explained the changes in - dependent variable, thus interest rate regulation did not singly influence credit administration to SMEs. It was concluded that interest rate regulation did not have the significant effect on credit administration to SMEs, rather in concert with other determinants of credit administration (like inflation, access to credit, foreign exchange rate volatility, etc), it could have a strong positive effect. The study, therefore, recommended among other things that interest rate should be complemented with effective credit guarantee scheme, subsidized interest rates, and adequate financial education.

KEYWORDS: *Interest Rate Regulation, Production for Local Consumption, Credit Extension to SMEs, Entrepreneurship and Small Businesses*