

CREDIT RISK AND ECONOMIC GROWTH IN NIGERIA

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ABSTRACT

Lending and borrowing are the life wire of economic growth. Every economic activity pivot onthe facilitation and the inter-relatedness of lending process by the financial intermediation role of Banks and other similar institutions. The lubrication of the economy via lending and borrowing is associated with risk of defaults which is either in part or in full. This risk of default may be attributed to bad business forecast and analysis or other unforeseen circumstances emanating from the business environment which may either be internal or external. The lender bears the brunt of this default at every interval. This study therefore examines the effect of credit risk on economic growth in Nigeria. The Johansen cointegration, Granger causality and the error correction mechanism techniques were adopted in the data analysis given that the variables are integrated of order one 1(1). The result of the study shows the credit risk affect economic growth negatively. The implication is that an inverse relation exists between economic growth and credit risk. The Granger causality test shows that there is a bidirectional relationship between credit risk and economic growth in Nigeria. Given the above findings the paper recommends proper credit risk management as to reduce the risk associated with lending and borrowing. It also recommends the Central Bank of Nigeria should reduce the prevailing interest rate so as to minimize the risk of default and encourage more investment.

Keywords: Credit risk, credit creation, default risk, Business risk, economic growth.