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assistance to intending entrepreneurs who had not the opportunity of attending higher institutions.

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INTEREST RATE-INFLATION NEXUS AND CREDIT RISK IMPLICATIONS OF THE NEW AGRICULTURAL CREDIT POLICY IN NIGERIA

By

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ABSTRACT

This paper examines the implications of the new agricultural credit policy in Nigeria. Possible reactions of stakeholders to it are assessed. The implications of the interest rate subsidy on credit risks in an inflationary economy are discussed. Cross-country experiences in subsidization of rural credit scheme are reviewed, and recommendations for minimizing credit risks of the new policy are provided.

1.0 Introduction

The Federal Government of Nigeria recently announced proposals to subsidize interest rate on loans to farmers by commercial banks and also to implement a waiver on interest payment by the banks on profits earned from loans to the agricultural sector. In addition, the Government announced that ₦50 billion has been mobilized by the Federal Ministry of Finance for lending to farmers in the 2006 farming season; ₦20 billion to small-scale farmers and ₦30 billion to large-scale farmers. These proposals which are aimed at promoting sustainable growth and development of the Nigerian agricultural sector as a means of fast-tracking overall economic growth and development of the country has started eliciting debates and comments from various stakeholders (The Punch, 2006). It is expected that farmers and owners of agro-allied industries will applaud the new credit policy. Development economists, however, may be worried that the new policy is coming up so close to an election year and that big farmers may capture its benefits to the detriment of small farmers. Nigeria's partners-in-development, particularly the World Bank and donor agencies may express concerns about the credit risk and sustainability implications of the new credit policy.

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