



Bank's Credit on Unemployment Rate in Nigeria

Kamal Adekunle, Adewunmi

Department of Banking and Finance, Federal Polytechnic, Ilaro, Ogun state, Nigeria

kamal.adewunmi@federalpolyilaro.edu.ng

Abstract

This study looked at the effect of bank credit on the unemployment rate in Nigeria from 1990 to 2020. The study included multiple linear regression model variables such as bank loan and advances, broad money supply, credit to the private sector, interest rate, and unemployment rate. To conduct an empirical inquiry utilizing the provided model, the Ordinary Least Squares (OLS) estimation method was used. Data employed was gathered from Central Bank of Nigeria's (CBN) 2020 Statistical Bulletin. To assess the influence of the independent and dependent variables, unit root test, OLS regression, and co-integration were performed. The investigation indicated that there is no significant relationship between loan and advances and unemployment rate in Nigeria. Furthermore, the research demonstrated that the broad money supply had a considerable influence on Nigeria's unemployment rate. Similarly, it indicates credit to the private sector had a considerable impact on Nigeria's unemployment rate. Finally, the study reveals that interest rates show significant impact on Nigeria's unemployment rate. As a result, it was established that bank credit had an influence on Nigeria's unemployment rate. It was suggested that the monetary authorities enhance and develop financial services, notably deposit money institutions, in order to give vital credit facilities to the country's teeming unemployed youths.

Keywords: Loan and Advances, Broad Money Supply, Credit to Private Sector, Interest Rate, Unemployment Rate.

Citation

Adewunmi, K. A. (2022). Bank's Credit on Unemployment Rate in Nigeria. *International Journal of Women in Technical Education and Employment*, 3(2), 218 – 224.

ARTICLE HISTORY

Received: November 30, 2022
 Revised: December 16, 2022
 Accepted: December 20, 2022

Introduction

Financial institution is defined as economic group owned privately in order to receive deposits from financial institution customers, preserving all and remodeling it to mortgage for the loan borrower (Emenuga, 2019). Banks have range of features which aren't confined to imparting funding advisory services, forex services, providing travelers' cheques to customers and serving as the customer's guarantor. The services offered by the banks have a significant impact on residents' quality of living and income levels. (Zhufany, 2014). Globally, the banking industry has been recognized as a nation's primary engine for growth and development. Until the surplus unit's resources are transferred to the deficit unit for profitable investment operations, a bank's

intermediation function is not accomplished. By directing resources to the actual sector, the commercial bank acts as a catalyst to encourage growth in many areas of the economy (Emenuga, 2019). The prevalence of poverty is still quite high in Nigeria today. The World Bank reported in 2018 that 68% of all Nigerians were claimed to be living on less than \$1.25 per day. The same cannot be said for per capita income. In 2010, it only cost US\$1,180. (World Bank, 2018). To speed up economic growth in the nation through SMEs, a number of loan programs were developed in the past. The expansion of small and medium-sized businesses will undoubtedly have a positive knock-on effect on the entire economy because they account for over 90% of enterprises in the agricultural and industrial sectors and for about

50% of Nigeria's GDP when combined with small-medium sized enterprises in other sectors of the economy. They haven't been able to do this since they don't have access to enough funding Nigeria's unemployment rate in a number of ways. In addition to the economic waste it caused, it also represents political upheaval since the problem is so widespread that it cannot be solved by a simple campaign or word of mouth. To come up with a long-lasting answer, it took the united efforts of individuals, the nation's government in particular, and the entire world. From a wide range of socioeconomic perspectives, unemployment in Nigeria has impacted the young and the economic growth of the nation. It is clear that unemployment, particularly among graduates, impedes Nigeria's advancement. (Ezie, 2012). When individuals that are ready, able and willing to work are unable to obtain employment, this is known as unemployment. When someone who is competent to work does not have significant employment to accomplish within a certain amount of time, this is used to characterize the problem. Ozughalu and Ogwumike (2013) define unemployment as the inability to obtain employment for persons in readiness and able to work at the going rate of pay. The taxonomy of unemployment, according to Okigbo (1986), as quoted in Ozughalu and Ogwumike (2013), includes the state of being unemployed, the action of looking for work, the motive of seeking a job under particular circumstances, and the desire for employment. This means that before one may assert that they are unemployed, certain conditions must be met. Unemployed people are individuals who are not already employed but who are willing and able to do so in exchange for a payment and who are now ready to work, and who have actively searched for employment, according to the International Labour Organization (2007). This means that before one may assert that they are unemployed, certain conditions must be met. The MDGs face a significant threat from unemployment. Eneji, Mailafia, and Weiping (2013) assert that without tackling the issues relating to lack of employment, poverty, inequality, and the nature of the mono-product economy head-on, Nigeria would

struggle to realize vision 2020. They believed that poverty and unemployment were unwelcome situations in which the majority of Nigerians found themselves and that they needed to be addressed.

According to Dennis Robertson's 1930 neo-classical loan-able fund theory of interest rate, in the long run, interest rates are determined by saves and investments, the rate that balances the demand for and delivery of loan-able money is known as the hobby fee (Jhingan 2006). The call for loan-able fund for investments within side the export zone inclusive of buy of capital goods, constructions, cargo of products and services, e.t.c. relies upon at the anticipated fee of income compared with the fee of hobby. These call for is met with the aid of using beyond financial keeping or through saving and are hobby elastic.

Amakor and Eneh (2021) Utilizing secondary data from the CBN statistics bulletin and Index Mundi, researchers looked at the impact of financial inclusion on Nigeria's unemployment rate from 1986 to 2019. Unemployment rate was utilized as a proxy for financial inclusion, together with the loans and advances made by commercial banks (CBLA) and microfinance banks (MFBLA) to rural areas. The OLS Method was used to test the hypothesis, results showed that while CBLA has a negative relationship with unemployment rate, loans and advances from microfinance banks have a strong relationship with GDP per capital income and the human development index. The study finds that, with the exception of employment, MFBLA has boosted the standard of life of rural residents more than CBLA. The report suggests that MFBLA should focus on entrepreneurship instead of commercial endeavors. According to the report, MFB should be given additional authority to expand, which would increase the number of jobs available to rural residents.

Akutson, Messiah and Yakubu (2018) examined the relationship between unemployment and economic growth was investigated in Nigeria. These were conducted to explore the connection between

unemployment and economic growth and to give recommendations on how to increase the economy's growth and minimizing unemployment taking into account the country's current economic difficulties. Annual secondary data from the Central Bank Statistical Bulletin and the National Bureau of Statistics were utilized from 1986 to 2015. The data obtained to test the relationship and examine the effect were examined using the ARDL Bound Testing. Hence, with effective policies, the long-run increase in unemployment has a statistically significant growth boosting mechanism on economic growth

Methodology

Ex post facto research design is adopted by the current study because it can be used to test hypotheses about cause and effect between independent and dependent variables, bank credit and unemployment in this case. The study's population is the aggregate of all economic and financial indicators. Thus, from the population, the researcher drew a sample which will be the target population. The sample of the study is unemployment rate. The sample size for this study is thirty-one (31) years, from the year 1990-2020, data were extracted from CBN (2020). For this study, an unemployment rate (UEMP) proxy for the

Unemployment rate in Nigeria is the (dependent variable) while bank loan and advance, broad money supply, credit to private sector and interest rate are the independent variables. In testing for the hypotheses, the following model was adopted:

$$UEMP = f(UEMP, BMS, CPS, INTR) \dots \dots \dots (i)$$

$$UEMP = \beta_0 + \beta_1UEMP + \beta_2 BMS + \beta_3CPS + \beta_4INTR+ U \dots \dots \dots (ii)$$

- Where;
- UEMP = Unemployment rate
- BLA= Bank Loan and Advance
- BMS= Broad Money Supply
- CPS = Credit to Private Sector
- INTR= Interest rate

- U= Stochastic error term
- β_0 = Constant intercept
- β_1 - β_4 = Coefficient of independent variables

Therefore, on this basis the mathematical expression for the apriori assumption is:

- $\beta_1 < 0$,
- $\beta_2 < 0$,
- $\beta_3 < 0$,
- $\beta_4 > 0$.

Data Analysis and Interpretations

Table 1: Descriptive Statistics Table

	UEMP	CPS	INTR	BLA	MS
Mean	13.69355	7626.639	18.69806	5595.685	25.03516
Median	13.10000	1838.390	17.98000	1976.710	21.55000
Maximum	33.30000	29051.61	29.80000	18524.90	57.78000
Minimum	1.800000	33.55000	11.50000	26.00000	1.290000
Std. Dev.	8.981460	9248.143	3.518189	6240.939	15.36467
Skewness	0.312011	0.917264	1.060058	0.726982	0.528146
Kurtosis	2.085954	2.431884	5.102402	2.032173	2.333858
Jarque-Bera Probability	1.582144 0.453359	4.763985 0.092366	11.51519 0.003159	3.940486 0.139423	2.014353 0.365249
Sum	424.5000	236425.8	579.6400	173466.2	776.0900
Sum Sq. Dev.	2419.999	2.57E+09	371.3297	1.17E+09	7082.188
Observations	31	31	31	31	31

The descriptive record simply the character of applicable functions of the statistics collection. The records in Table 4.1 discovered the mean, median, minimal, most values and the distribution of the pattern measured via way of means of the skewness, kurtosis, and the Jarque-Bera (JB) statistic. It indicates that all variables the collections how good-sized degree of consistency as their method and medians have values in the most and minimal values. Actually, the mean of unemployment rate (UEMP) indicates 13.69355, median (13.10000), maximum value (33.30000) and minimum value (1.80000). However, the summary statistics recorded relative high standard

deviations for most of the series except interest rate, unemployment rate and money supply. Credits to private sector (CPS) have the highest standard deviation with a value of 9248.143, followed by bank loan and advance at 6240.939; money supply (15.36467); and interest rate with the value of 3.518189. This shows that the dispersions of the actual data from their means are very high. It can also be deduced that most of the series are not moderately skewed. Similarly, the probability of Jarque-Bera statistic is high for the series except interest rate (INTR) indicating the acceptance of the normal distribution hypothesis.

Table 2: Unit Root Test Results Table (ADF)

Group unit root test: Summary
 Series: UEMP, CPS, INTR, BLA, MS
 Date: 01/31/22 Time: 20:37
 Sample: 1990 2020
 Exogenous variables: Individual effects
 Automatic selection of maximum lags
 Automatic lag length selection based on SIC: 0
 Newey-West automatic bandwidth selection and Bartlett kernel
 Balanced observations for each test

Method	Statistic	Prob.**	Cross-Sections	Obs
Null: Unit root (assumes common unit root process)				
Levin, Lin & Chu t*	-11.0269	0.0000	5	145
Null: Unit root (assumes individual unit root process)				
Im, Pesaran and Shin W-stat	-10.1464	0.0000	5	145
ADF - Fisher Chi-square	88.3893	0.0000	5	145
PP - Fisher Chi-square	99.1193	0.0000	5	145

** Probabilities for Fisher tests are computed using an asymptotic Chi-square distribution. All other tests assume asymptotic normality.

Source: Computation from E-View 7 Output, 2022

However, unemployment rate, credit to private sector, interest rate and bank loan and advance and money supply are all stationary at first difference. This means

that all the variables have no unit root at second difference.

Table 3: Regression Results

Dependent Variable: UEMP
 Method: Least Squares
 Date: 01/31/22 Time: 20:39
 Sample: 1990 2020
 Included observations: 31

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	7.509779	0.340330	22.06616	0.0000
CPS	0.008846	0.003379	2.617974	0.0148
INTR	-0.176106	0.014874	-11.84019	0.0000
BLA	0.003620	0.018785	0.192688	0.8488
MS	0.000168	1.02E-05	16.44078	0.0000
R-squared	0.975391	Mean dependent var		7.357670
Adjusted R-squared	0.951454	S.D. dependent var		1.471215
S.E. of regression	0.248571	Akaike info criterion		0.204839
Sum squared resid	1.544694	Schwarz criterion		0.438372
Log likelihood	1.927416	Hannan-Quinn criter.		0.279548
F-statistic	247.7232	Durbin-Watson stat		1.634448
Prob(F-statistic)	0.000000			

Source: Computation from E-View 7 Output, 2022

The F-statistic displays how well the data fit. Data must be somewhat well suited. That is, the value of R^2 should be at least 60% higher than average, the better the fitted data, the greater the R^2 . The R^2 in this model is 97%, which is positive because 97% is higher than 60%, indicating that the model is fit. The remaining 3% are elements or variables that are capable of influencing the dependent construct but were not accounted for in the model. The fact that the predictors can only account for 95% of the variation in the unemployment rate after accounting for the degree of freedom may also help to explain the adjusted R^2 , which is 95%.

Coefficient of variables

The coefficients' signs should correspond to economic theory, expectations, other people's experiences, or intuition. The calculated coefficients are shown in the "Coefficient" column. Using the conventional OLS formula, the least squares regression coefficients are calculated. The coefficient for the basic linear models under consideration here quantifies, while holding all

other variables constant. Assuming all other variables remain constant, other explanatory variables are understood as rail of relationship between the respective independent variable and the dependent variable. $UEMP = 7.509779 + 0.008846CPS - 0.176106INTR + 0.003620BLA + 0.000168MS + \mu$

The constant's value of 7.509779 suggests that the unemployment rate will rise by 7.509779 while keeping the independent variable constant. According to the coefficient of credit to the private sector, which is 0.008846, credit to the private sector will grow by 0.008846 for every unit increase in credit. With an interest rate coefficient of -0.176106, the interest rate will drop for every unit rise in the interest rate. However, the bank loan and advance coefficient, which is 0.003620, shows that there will be an increase in the bank loan and advance of 0.003620 for every unit increase. Lastly, money supply with the coefficient of 0.000168 indicates that for every unit increase in money supply, there will be increase in money supply by 0.000168.

F-statistics: This test overall significance of variables used to depicts the dependent and independent variables must be jointly significant. The F-test may be used to verify this. If p value of the F statistic is lower than 5% (0.05), it can be said to disregard the null hypothesis and accept alternative hypothesis. If not, we can do the opposite. The f statistics reveal 247.7232 with a p value of (0.000000), which is less than the 5% level of significance. As a result, we reject the null hypothesis. (Ho).

Conclusion

Based on the findings, only two out of the four tested hypotheses were statistically insignificant throughout the research period, according to the results of the T-statistic, which evaluates individual impact, based on the regression analysis that was carried out. The study's findings therefore, show that there is no connection between Nigeria's unemployment rate and bank advances or loans. The results of this study also revealed that Nigeria's high unemployment rate is significantly impacted by the country's vast money supply. Similarly, it was determined that loans to the private sector significantly influenced Nigeria's unemployment rate. In the meanwhile, this study found that Nigeria's unemployment rate is significantly impacted by interest rates. Hence, it concluded that bank credit on unemployment rate in Nigeria is highly significant.

Recommendations

Prior to the findings, recommendations are hereby provided below:

- i. To start, the government of Nigeria should implement significant changes through the central bank to make sure that more of the money in circulation is in the productive sector.
- ii. The monetary authorities in Nigeria should step up their supervisory activities to ensuring that commercial bank increase loan facilities to the entrepreneur.
- iii. The country's teeming youth unemployment population requires the country's monetary authority to extend and enhance its financial services, notably deposit money banks.
- iv. Government and monetary authorities should devise clever policies and provide a favorable business climate for MSMEs to thrive.
- v. Central Bank of Nigeria should give access to finance and should also be simplified and obtainable at a lower lending rate.
- vi. Finally, to encourage investment and boost economic growth in Nigeria, the monetary authority should reconsider its interest rate policy. Making the financial sector robust will enable it to offer lending at reduced interest rates, which will in turn spur Nigeria's economy.

References

- Akutson, S. & Messiah, A. J., & Araf, Y. D. (2018). The impact of unemployment on economic growth in Nigeria: An Application of Autoregressive Distributed Lag (ARDL) Bound Testing, *Journal of Business Management and Marketing*, 1(2), 37-46.
- Amakor, I. C., & Eneh, O. M. (2021). Financial inclusion and unemployment rate in Nigeria. *International Journal of Research (IJR)*, 8(11), 1-15.
- Babasanya, A. O. (2018). Foreign direct investment and employment generation in Nigeria. *Journal of Economic and Sustainable Development*, 9(4): 42-47.
- Emenuga, P. E. (2019). Effect of commercial banks' credit on agricultural productivity in Nigeria. *International Journal of Academic Research in Accounting, Finance and Management Sciences*, 15(3), 417-428.
- Eneji, M. A, Mai-Lafia, D & Weiping, S. (2013). Socio-economic impact of graduate unemployment on Nigeria and the vision

- 20:2020. *International Journal of Development and sustainability*, 2(1), 1- 29.
- Enyim, O. B., Ewno, E. N. & Okoro, O. T. (2013). Banking sector credit and the performance of the agricultural sector in Nigeria. *European Journal of Scientific Research*, 23(2), 35 – 55.
- Ezie, E., I. (2012). The impact of monetary policies on Nigeria's unemployment: lessons for poverty reduction in Nigeria. *Equatorial Journal of Finance and Management Sciences*, 3(1), 1- 16.
- Idowu, A., Ochei, A., I. & Isibor, A. (2019). Credit to the private sector and economic growth in the present technological world: Empirical Evidence from Nigeria, *International Journal of Civil Engineering and Technology*, 10(2), 2329–2347.
- International Labor Organization ILO. (2007). Global employment trends. Geneva: International Labor Office. Retrieved 2007
- Obansa, S. J., & Maduekwe, I. M. (2013). Agricultural financing and economic growth in Nigeria. *European scientific journal*, 9(1), 168-204.
- Obidike, P. C., Ejeh, G. C., & Ugwuegbe. S. U. (2015). The impact of interest rate spread on the performance of Nigerian banking industry. *Journal of Economics and Sustainable Development*, 6(12), 1-10.
- Obilor, S. I. (2013). The impact of commercial banks credit to agriculture on agricultural development in Nigeria: An econometric analysis. *International Journal of Business Humanities and Technology*, 3(1), 85 – 95.
- Ogunbi, J., O. (2011). Principle of macroeconomics. Theory and application in Nigeria, (1st edition) Lagos State.
- Omondi, R. I. & Jagongo, A. (2018). Microfinance services and financial performance of small and medium enterprises of youth SMEs in Kisumu County, Kenya. *International Academic Journal of Economics and Finance*, 3(1), 24-43.
- Ozughalu, U. M. & Ogwumike, F. O. (2018). Can economic growth, foreign direct investment and exports provide the desired panacea to the problem of unemployment in Nigeria? *Journal of Economics and Sustainable Development*, 4 (1), 36 – 51.
- Solanke, C., F. (2007). The impact of micro credit institutions o the development of small and medium enterprises in Anambra state. *IOSR Journal of Business and Management*, 14(5), 75-81.
- Wright, R. (2000). The New York Times. Retrieved 25 August 2011.
- Zhufanyi, T. (2014). Essentials of economics. *Journal of Finance*, 2(5), 1-7.