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TOPIC; **BUDGET DEFICIT AND ITS IMPLICATION ON THE NIGERIAN ECONOMY (2000-2021)**

DEPT

CHATER ONE

INTRODUCTION

1.1 Background to the Study

Deficit as a means of financing was introduced in Nigeria after the civil war, accentuated by the uncertainties in the oil market and further aggravated by the current financial and economic challenges. Since independence, over 85% of Nigerian budget are on deficit (Momodu & Monogbe, 2017). Despite the extended expansion of government expenditure in Nigeria over the years, the expected level of economic growth has not been achieved as greater percentage of the Nigeria citizens still wallow in absolute poverty, persistent high mortality rate, low life expectancy due to inaccessibility of standard medical facilities, poor road network, shortage of food and high rate of unemployment (Momodu & Monogbe, 2017). In reference to the Ricardian equivalence theorem which emphasis that increases in the deficit financed by fiscal spending will be matched by future increase in taxes and so this will

leave interest rates and private investment unchanged. The implication of this is that in an attempt to repay the borrowed fund, tax which was cut in the previous years will eventually be raised higher than what was supposed to be paid earlier which meaning that the accumulated private savings during the period of increase in government spending will be used in setting off the borrowed fund in the future. The choice is therefore between tax now and tax later. At this juncture, one wonders why empirical evidence and theoretical underpinning justifies the fact that deficit financing stimulates economic growth especially when an economy is facing persistence unemployment like in the Nigerian case. But in the practical experience, the reverse is the case in the Nigeria. Despite the huge quantum of loan borrowed by the federal government to ensure economic development and growth in Nigeria, can we emphatically say that deficit financing has stimulated Nigerian economic growth from 1986 till date? Series of studies have been carried out on this subject matter and quite a number of results have also emerged in the process. Some researchers (Okoye & Akenbor, 2010) believe that deficit financing has a significant effect on Nigerian economy; others believe that there is no significant effect on the economy. Their findings are contradictory and are on this background that the study was motivated to fill the knowledge gap on the effects of deficit financing on Nigerian economic growth.

This work seeks empirical explanation on how deficit financing has affected the economic growth of Nigerian (2000-2020).

1.2 Statement of Problem

In Nigeria, considerable attention has been focused on the consequences of deficit financing because of the belief that the presence of these consequences in the Nigeria economy might have informed the current thinking that the government through its deficit financing has contributed greatly to the country's current economic problem. Among the problems confronting the Nigerian economy are; pressure on balance of payment, declining growth and heavy debt burden in which we (Nigeria) had $18billion about 60 percent of the $30billion owed the Paris Club written off (Debt Management Office, 2006). The concern is not deficit *perse,* this is because fiscal deficitis not a crime but when it exceeds the international bench mark of 3 percent of GDP is worrisome, especially when it cannot be said to promote economic activities (Anyanwu, 1997). All government programmes must be financed, whether in form of expenditure on goods and services or on the assets acquisition or through lending to the private sector. The other part of the expenditure which has not been financed through income tax, individual’s savings or domestic borrowing must be through fiscal deficit.

The persistent recurrence of deficit financing via the creation of high powered money may not guarantee the achievement of macroeconomic objectives, which may in turn affect the level of desired investment in an economy and thereby narrowing growth. Major determinant that is mostly affected directly by macroeconomic policy is investment, (Word Bank 2013) such macroeconomic policies involved the deliberate control of policy instruments, such as monetary and fiscal policies on grounds of achieving macroeconomic objectives. Investors expectation, decision and confidence on whether to invest or not are based on macroeconomic indices. It is regarded that Macro economic variables are basic fundamentals or preconditions which must be achieved for investment to take place

However, deficit financing is not without its problems, its several macroeconomic implications on the output growth cannot be overemphasized. The question of whether deficit financing had actually contributed positively or otherwise to economic growth is thus pertinent in the field of finance. One wonders the reason why poverty is vividly written in the face of individual citizenry in Nigeria with the sea of evidence in the literature on the positive impact of deficit financing on economic growth and investment (Okoye & Akenbor, 2010). The outrageous macroeconomic instability and

imbalance in the Nigerian economy over the years had been attributed to the growth in fiscal deficit.

The inflationary pressure had been on an increase as a result of expansionary fiscal operations embarked upon by the government with the attendant injection of liquidity into the economy; the pressure on the balance of payments of the nation can all be said to be a function of fiscal deficit and deficit financing embarked upon by the government from time to time. With the consequential effect on both the real sector as well as other sectors of the economy, the reason therefore arise for the need to examine the implications of deficit financing on the growth potentials of the Nigerian economy.

1.3 Objectives of the Study

The main objective of this study is to examine budget deficit and its implication on economic growth in Nigeria. The specific objectives include to:

i. Examine the impact of total external debt on economic growth in Nigeria.
ii. To investigate the effect of total domestic debt on economic growth in Nigeria.
iii. Examine the impact of interest rate on economic growth in Nigeria.

1.4 Research Questions

The following research questions will guide this study.

i. To what extent does total external debt impacted on economic growth in Nigeria?

ii. What are the effects of total domestic debts on economic growth in Nigeria?

iii. What is the impact of interest rate on economic growth in Nigeria?

1.5 Research Hypotheses

The following research hypotheses will guide this study:

H_o: Total external debt has no positive and significant impact on economic growth in Nigeria.

H_o: Total domestic debt has no positive and significant impact on economic growth in Nigeria

H_o: Interest rate has no significant effect on economic growth in Nigeria.

1.6 Significance of the Study

This study makes several contributions to literature and policy. By examining the deficit financing and economic growth on a country specific level, the study contributes to literature and aims at influencing both fiscal, monetary and debt policy in Nigeria since it is covering an interesting period in Nigeria where political upheavals influences fiscal policy while the economy undergoes significant transformations.

The empirical findings will shed more light on the best way to manage deficit without harming the economy. The policy makers will therefore have a better understanding of the issues surrounding the relationship between deficit financing and economic growth and a threshold of deficit which will act as an indicator to warn against the country plunging into debt crisis or debt overhung. Since Nigeria finances its deficit largely by borrowing, the study aims at providing the understanding of managing debt within sustainable levels.

1.7 Scope of the Study

This study focused on budget deficit and its implication on economic growth in Nigeria.. The scope of this study spans .through twenty years, from 2001-2021. In this study, concept and nature of deficit financing will be given close attention to.

1.8 Limitations of the Study

Certain draw backs were encountered during this research. These are:

i. inadequate fund to execute the project

ii. Logistics constraints that hindered smooth implementation of the research. The study was also limited in scope.

1.9 Definition of Terms

Deficit Financing: Is a situation where current expenditure exceeds expected revenue.

Debt: Debt is the resource or money used in an organization that is not contributed by its owner, and does not in any other way belong to the users. It is a liability represented by a financial instrument or other formal equivalent

Economic growth: Economic growth occurs whenever people take resources and rearrange them in ways that are more valuable. Economic growth refers to the quantity of goods and services produced; it says nothing about the way in which they are produced

Gross Domestic Product (GDP): This is the monetary value of all the finished goods and services produced within a country's borders in a specific time period usually a year. GDP includes all private and public consumption, government outlays, investments, private inventories, paid-in construction costs and the foreign balance of trade exports are added, imports are subtracted

CHAPTER TWO

REVIEW OF RELATED LITERATURE

2.1 Conceptual Review

2.1.1 Concept and Nature of Deficit Financing

The issue of deficit financing has been in focus among scholars because whenever there is budget deficit in any country, what comes to the mind of experts in finance is the remedy for financing such budget deficit so as to obliterates the negative effects on the economy. Financing represents government's sources of remedying deficit or utilizing surplus. Deficit financing arises each time the government has budget deficit. However, for the economy to grow as planned in a budget, shortfall of revenue resulting from excess expenditure has to be financed by raising fund from other sources available to the government. Deficit financing can be seen as the practice of seeking to stimulate a nation's economy by increasing government expenditures beyond revenue sources (CBN, 2012). This means that deficit financing can be defined to mean financing undertaken by a corporation or government to make up for a shortfall in revenue. Government or corporation may undertake deficit financing in order to provide an economic stimulus.

When government expenditure tends to exceed public income, the government may resort to deficit financing to meet the deficit in the budget. Keynes theory recognizes the idea of deficit financing as a

compensatory spending meant to solve the problem of unemployment and depression. Modern economists prescribe deficit financing for developmental purposes. Nwaotka (2014) defines deficit financing as a planned excess expenditure over income, dictated by government policy or creating fund to finance deficit by borrowing whether from internal or external sources, which must be repaid with interest within a specific period of time. Deficit financing is defined in finance as government spending in excess of revenues which is financed by borrowing. Keynesian economist's theory states that deficit is financed in order to increase economic activity and reduce unemployment in a nation. Stiglitz (2015) sees deficit financing as a situation in which the federal government's excess fund of outlays over receipt of revenue for a given period is financed by borrowed funds from the public. Deficit financing can also be seen as the sale of debt securities in order to finance expenditures that are in excess of income. This method of financing can also be seen as nonbanking public source of financing. Generally, deficit financing is applied to government finance because income, represented by tax revenues and fees, is often unavailable to pay expenses. As with monetizing the debt, deficit financing puts upward pressure on interest rates because government debt securities compete with private securities for limited capital (Smriti, 2010).

2.1.2 Sources of Financing Fiscal Deficit

Government all over the world always look out for different options to financing its fiscal deficit. The main two sources are:

1. **Borrowings:** Fiscal deficit can be met by borrowings from the internal sources (public, commercial banks, etc.) or the external sources (foreign governments, international organisations, etc.).
2. **Ways and Means:** This implies printing of new currency by the apex bank. Government may borrow from Central Bank of Nigeria (CBN) against its securities to meet the fiscal deficit. Central Bank of Nigeria (CBN) issues new currency for the purpose of financing its fiscal deficit. This involves deficit financing. Borrowings are considered as a better source as they do not increase the money supply which is regarded as the main cause of inflation. On the other hand, the use of Ways and Means may lead to inflationary trends in the economy due to more money supply.

2.1.3 Concept and Nature of Economic Stability

Economic stability refers to an absence of excessive fluctuations in the macroeconomy. An economy with fairly constant output growth and low and stable inflation would be considered economically stable. Economic stability is a term that has been in focus for the past several years mainly because of the economic downturn experienced globally in the recent past.

Many share markets plunged and business plummeted, giving rise to one of the worst economic crises experienced by the present generation. Many lost their jobs and some saw their savings evaporate at a rapid pace. Thus, this brings out the important question, how important the economic stability is, as having an unstable economy can pave way to an economic crisis each time the global markets see a downward trend (Pandula, 2012).

Economic Stability Variables or Measures

In any economic system like ours, there is always the need for undertaking very useful measures aimed at determining the stability of the economy. Due to the nature of this research work, economic stability is proxy as gross domestic product (GDP), inflation rate and unemployment rate in Nigeria. This is because economic stability refers to an economy that experiences constant output growth, low or stable inflation rate and maintaining full employment by maintaining low unemployment. However, no one variable can measure the stability of the economy. The variables or measures are explained below:

Gross Domestic Product (RGDP)

In this work, gross domestic product (RGDP) will be proxied as one of the exogenous variables to measure economic stability. This is because economic stability measures the sustainability of economic growth of a country. It refers as to the market or money value of all

goods and services produced in a country at a particular period of time. Gross Domestic Product (GDP) measures the economic size of a country. It also measures how fast the nation economy is growing. It is an important indicator or measure of economic stability. Abu and Achegbulu (2012) notes that gross domestic product (GDP) variation in Nigeria is used to measure the level of economic stability in the country. Hassan and Okorafor (2013) opines that gross domestic product is one of the measures of economic stability in Nigeria because economic stability refers to an economy that witness constant growth in the economy. Therefore, to calculate the GDP, one only needs to add together the various components of the economy that are a measure of all the goods and services produced.

2.1.4 Effects of Deficit Financing

According to Muley (2017) Deficit financing has several economic effects which are interrelated in many ways: i. Deficit financing and inflation ii. Deficit financing and capital formation and economic development iii. Deficit financing and income distribution.

Deficit Financing and Inflation It is said that deficit financing is inherently inflationary. Since deficit financing raises aggregate expenditure and, hence, increases aggregate demand, the danger of inflation looms large. This is particularly true when deficit financing is made for the persecution of war. However, whether

deficit financing is inflationary or not depends on the nature of deficit financing. Being unproductive in character, war expenditure made through deficit financing is definitely inflationary. But if a developmental expenditure is made, deficit financing may not be inflationary although it results in an increase in money supply. It is the deficit financing that meets the liquidity requirements of growing economies. Above all, a mild dose of inflation following deficit financing is conducive to the whole process of development. **Some amount of inflation is inevitable under the following circumstances:**

(a) When the economy is fully employed, increased money supply increases aggregate money income through multiplier effect. As there is no excess capacity in the economy, such increased money income results in an increased aggregate expenditure— thereby fuelling inflationary rise in prices.

(b) One cannot escape from the vicious circle of deficit financing once this popular method of financing is adopted. Governments usually resort to this technique since public hardly opposes it. The inflationary impact becomes stronger once the continuous deficit financing is adopted. If the government fails to stabilize the price level, rising prices lead to increased costs which compel the government to mobilize additional revenues through deficit financing. This surely threatens the price stability. Thus a vicious

circle of rising price level and increased cost sets in. Thus, deficit financing has a great potentiality of fanning out demand-pull and cost-push inflationary forces.

(c) We have already said that some amount of inflation is inevitable in Least Developed Countries (LDCs). In these countries, not all aggregate demand can be met because of the low production. It is due to lack of complementary resources and various types of bottlenecks that actual production falls short of potential output. Above all, pattern of consumption fuels inflationary price rise in these countries. For instance, demand for food grains is comparatively higher in these countries. When there is an increase in aggregate demand consequent upon deficit financing, demand for food grains rise. But its price rises due to the inelasticity in supply. Consequently, prices of non-agricultural goods rise. Thus, deficit financing is inflationary in LDCs—whether the economies remain at the state of full employment or not.

2.1.5 Deficit Financing and Capital Formation and Economic Development

The technique of deficit financing may be used to promote economic development in several ways. Nobody denies the role of deficit financing in garnering resources required for economic development, though the method is an inflationary one. Economic development largely depends on capital formation. The basic source

of capital formation is savings. But, LDCs are characterized by low saving-income ratio. In these low-saving countries, deficit finance-led inflation becomes an important source of capital accumulation. During inflation, producers are largely benefited compared to the poor fixed-income earners. Saving propensities of the former are considerably higher. As a result, aggregate savings of the community becomes larger which can be used for capital formation to accelerate the level of economic development. In developed countries, deficit financing is made to boost effective demand (Malhotra, 2019). But in LDCs, deficit financing is made for mobilization of savings. Savings thus collected encourages to increase capital. The technique of deficit financing results in an increase in government expenditure which produces a favourable multiplier effect on national income, saving, employment, etc. However, the multiplier effect of deficit financing in poor countries must be weaker even if these countries exhibit underemployment of resources. In other words, national income does not rise enough due to deficit financing since these countries suffer from shortage of capital equipment and other complementary resources, lack of technical knowledge and entrepreneurship, lack of communications, market imperfections, etc. Due to all these obstacles these countries suffer from deficiency in effective supply rather than deficiency in effective demand. This causes low productivity and low

output. Thus, deficit financing becomes anti-developmental in the long run. However, this conclusion is too hard to digest. It helps economic development, although not in a great way. It is true that deficit financing is self-defeating in nature as it tends to generate inflationary forces in the economy. But it must not be forgotten that it is self-destructive in nature since it has the potentiality of raising output level to counter the inflationary threat.

According to Malhotra (2019), deficit financing can play a useful role during the phase of depression in a developed economy. During this phase, the level of expenditure and demand falls down to a very low level and the banks and the general public are in no mood to undertake the risk of investment. They prefer to accumulate idle cash balances instead. The machinery and capital equipment are all there, what lacks is the incentive to produce due to deficiency in aggregate demand. If the government, pumps in additional purchasing power in the economy (through deficit financing), the level of effective demand is likely to increase to meet this demand, the machinery and capital equipment lying hitherto unused will be pressed into operation. The level of production will accordingly increase. If this increase is able to match the increase in aggregate spending level, inflationary tendencies will not be generated.

However, conditions in under-developed countries are different. This is on account of the fact that in these countries, the adequate

capital stock does not exist but has to be built up. Thus, while newly created money (as a result of deficit financing) leads to an immediate increase in the purchasing power in the hands of the people, the production of goods does not increase simultaneously. In fact, there is likely to be a considerable time-lag in the generation of extra purchasing power and the availability of additional consumer goods. In the meantime, the level of prices increases.

2.1.6. Deficit Financing and Income Distribution

The author further asserts that, it is said that deficit financing tends to widen income inequality. This is because of the fact that it creates excess purchasing power. But due to inelasticity in the supply of essential goods, excess purchasing power of the general public acts as an incentive to price rise. During inflation, it is said that rich becomes richer and the poor becomes poorer. Thus, social injustice becomes prominent. However, all types of deficit expenditure, not necessarily tend to disturb existing social justice.

If money collected through deficit financing is spent on public good or in public welfare programs, some sort of favourable distribution of income and wealth may be made. Ultimately, excess dose of deficit financing leading to inflationary rise in prices will exacerbate income inequality. Anyway, much depends on the volume of deficit financing. According to Abdallah (2018) among other things

taxation is meant to reduce inequalities arising from the distribution of wealth; therefore taxation could be used as a deficit financing tool to address income distribution such that the poor should not be at disadvantage.

According to Eze and Ogiji (2016) who wrote on impact of deficit financing on economic stability in Nigeria: Analysis of economic growth, their findings revealed that external source deficit financing, non-public source of deficit financing and exchange rate has significant positive implications on economic stability proxy for gross domestic product.

According to Moheeth (2018) in modern fiscal policy on account of consistent increase in public expenditure of various layers of government, deficit financing assumes important role as a method of finance. According to him, in the case of developing economies deficit financing has been proved to be a tonic to economic development, if used prudently. However, it may generate all ill effects if it is used without any limit. The application of the tool of deficit financing is justifiable only under unavoidable circumstances. It should be applied only when the advantages derived from deficit finance far outweigh the disadvantages generated to the economy.

Moheeth's assertion was corroborated by Fitzegerald and Florez (2016) who indicated that Canada resorted to running a budget deficit in 2016 to stimulate its economy without breaking the bank.

This was as a result of years of responsible fiscal policy. The federal government net debt for example was just over 25% of GDP; which is roughly a third of the 73% average for advanced countries.

Boariu and Bilau (2007) tried to analyze the relations existing between the different ways of financing budget deficit and inflation underlining the terms of these relations and the involved social and economic effects. According to them, an important source of inflation is considered to be the financing of budget deficits by direct appeal to the central bank's resources, nowadays forbidden by law in most countries for its negative impact.

2.1.7 Fiscal Deficits in Nigeria (1980 – 2019)

In Nigeria, fiscal expenditure is made possible by unprecedented earnings from oil sales which most often than not is alternated by periods of oil glut that leads to significant declines in government revenues. The custom of fiscal deficits in Nigeria is that it is skewed heavily in favour of recurrent expenditure (60 percent recurrent expenditure and 40 percent capital expenditure) which does not necessarily drive economic development. Since one of the critical instruments of fiscal policy is fiscal deficits, hence, stabilization of prices, growth of per capita income, and employment requires that fiscal deficit itself must grow or expand at a low constant rate. Fiscal deficits have been growing at a rate that is alarmingly not constant. As can be observed in Table 1, the growth rate of fiscal

deficits rose from 97.55 percent in 1981 to 171.54 percent in 1986 and rose to 3104.94 percent in 1996 respectively. Fiscal deficit growth rate was negative (- 115.60 percent) in 1997, but increased steadily to 2567.78 percent in 1998 and declined to 2.07 percent in 2016. It also rose to 109.42 in 2017. In 2018 and 2019, there was a decline of 33.53 and 25.95, respectively. Between 1998 and 2019, the deficit growth rate has been rising and falling. Thus, this indicates that fiscal deficit has not been growing at a constant rate.

Table 1: Fiscal deficit growth rate in Nigeria from 1980-2020

Year	**Fiscal Deficit (N' Billion)**	**Growth Rate of Fiscal Deficit (%)**
1980	-1975.2	-
1981	-3902.1	97.55
1982	-6104.1	56.43
1983	-3364.5	-44.88
1984	-2660.4	-20.92
1985	-3039.7	14.25
1986	-8254.3	171.54
1987	-5889.7	-28.64
1988	-12160.9	106.47
1989	-15134.7	24.45

1990	-22116.1	46.12
1991	-35755.	2 61.67
1992	-39532.5	10.56
1993	-107735.3	172.52
1994	-70270.6	-34.77
1995	1000.0	-101.42
1996	32049.4	3104.94
1997	-5000.0	-115.60
1998	-133389.3	2567.78
1999	-285104.7	113.73
2000	-103777.3	-63.60
2001	-221048.9	113.0
2002	-301401.6	36.35
2003	-202724.7	-32.73
2004	-172601.3	-14.85
2005	-161406.3	-6.48
2006	-101397.5	-37.17
2007	-117.2	-99.88
2008	-47.3	-59.64
2009	-810.0	1612.47
2010	-110.5	-86.35
2011	-115.8	4.79
2012	-975.6	742.48

2013	-115.3	-88.18
2014	-1064.6	823.33
2015	-1109.0	4.17
2016	-1085.8	-2.09
2017	-2,273.9	109.42
2018	-3,421.0	33.53
2019	-4,620.0	25.95

Source: Authors' computation based on CBN Statistical Bulletin 2020.

2.1.8 Review of Fiscal Deficit in Nigeria

From the fabrics of the two divergent opinions, the Nigerian economy is a battle ground or peaceful ground depending on one's disposition. Despite these discernable views, government expenditures can breed economic growth in Nigeria. This position was earlier supported by some eminent scholars like Baro (1990) and Ekpo (1995). Baro (1990) was among the first to formally endogenize government spending in a growth-model and to analyze the relationship between size of government and the rate of growth and saving. He concluded that an increase in the resources devoted to non-productive government services is associated with low capital. From an allocating perspective, an increase in government consumption leads to capital formation or private consumption. Some development economists of the Structuralist School prove

that some categories of government expenditures are necessary to overcome constraints to economic growth (Chenery & Syrquin, 1975). In the seminal work of Landau (1983), the share of government consumption to GDP reduces economic growth. This is consistent with the pro-market view that the growth in government constrains the overall economic growth. Diamond (1990) notes that in Nigeria, less attention has been given to examining the productiveness of the various components of public spending. Longe (1984) examines the growth and structure of government expenditures in Nigeria with a view of ascertaining if the pattern fits with the results of other countries. Thus, his study revealed that government expenditure has shown many considerable structural shifts over the review period and that the ratio of government expenditure to GNP has been rising and corresponds with the rising share hypothesis. Odusola (2016) adopts a simultaneous equation model to capture the interrelationship between government expenditure and economic growth in Nigeria.

The role of government sector in economic management is performed through the formulation and implementation of economic policy generally and fiscal policy in particular. It is designed to achieve the objective of price stability, growth, balance of payments equilibrium, full employment, mobilization of resources, and investment. These objectives have influenced government's

economic policy design and development efforts in Nigeria since independence. Different opinions have indeed continued to emerge on how fiscal policy can affect economic activities. The genesis of these controversies has been traced to the theoretical exposition of the different schools of thought, namely: the Classical, the Keynesian, and the Neo-classical schools of thought. To the Classical school of thought, fiscal deficits incessantly financed by debt crowds-out private investment and by extension lower the level of economic growth.

According to Tchokote (2001), the classical economists believe that debt issued by the public has no effect on the private sector savings. To them, a deficit financed by increasing the supply of securities, ceteris paribus reduces its price and raises real interest rates and this crowds out private investment. In sum, excessive deficit can lead to poor economic performance. Omitogun and Ayinla (2007) noted that the Keynesian school of thought postulates a positive relationship between deficit financing and investment and consequently on economic growth. This school of thought sees fiscal policy as a tool for overcoming fluctuations in the economy. Argumentatively, Tchokote (2001) noted that this school regards deficit financing as an important tool to achieve a level of aggregate demand that is consistent with full employment. When debt is used to finance government expenditures, consumers' income will be

increased. Given that resources are not fully utilized, crowding-out of private investment by high interest rates would not occur. The point of the Keynesian school of thought on the possible effects of fiscal deficits on economic activities has been challenged by the Neo-classical school of thought on the premise that the former school ignores the significance of how fiscal deficits are financed based on the effect of this policy variable on macroeconomic performance. The Neoclassical school postulates that the manner in which deficits are financed is capable of influencing the level of consumption and investment and by extension affect economic growth.

For Nigeria scenario, the result of government role in economic activities and the achievements in economic performance have been mixed. The economy experienced growth in real output in some years and declines in others. However, the overall picture is low scoring for the country's development efforts. The economic crisis from the 1980s and early 1990s brought out vividly the distinction between growth and development. The objectives fiscal policies in Nigeria are wide-ranging. These include increase in Gross Domestic Product growth rate, reduction in the rates of inflation and unemployment, improvement in the balance of payments, accumulation of financial savings and external reserves as well as stability in Naira exchange rate. More so, policy as well as

instruments applied to attain these objectives have until recently been far from adequate undue reliance which has been placed on fiscal policy rather than monetary policy in Nigeria (Darrat, 2014). Fiscal policy is considered an important variable which may determine changes in national income in developing countries like Nigeria. In order to stimulate the economic growth by means of fiscal policy, the country has more instruments. According to Ebimobowei (2010), these include the financing of direct investments of which the private sector would not provide adequate quantities; the efficient supply of certain public services which are necessary to ensure the basic conditions to display the economic activity and long term investments; and the financing of public activities so as to minimize the distortions to come up with the decisions to spend and invest properly in the private sector.

The fiscal policy of Nigeria has been extremely pro-cyclical with expenditures racketing out of control on the upswing of the oil price cycle. This has contributed to the observed deficit bias in the conduct of fiscal policy. One option is to put in place a fiscal policy rule. A fiscal policy rule makes sense in Nigeria, given the complete absence of a tradition of fiscal discipline. Since a fiscal rule commits government to a certain level of conduct in fiscal and budgetary management, it will help to build government credibility in fiscal management and, overtime, promote strong fiscal discipline across

all tiers of government. A rule, based on oil prices, will also help address the issue of the vulnerability of all tiers of government to oil price swings and reduce the pro-cyclicality in the budget. This will allow savings to build up financial assets in periods with high oil prices that can be used to finance the desired expenditure programmes when oil prices are low (Kwakwa, 2003). Phillips (1997) critically analyses the Nigerian fiscal policy between 1960 and 1997 with a view of suggesting workable ways for the effective implementation of Vision 2010. He observes that budget deficits have been an abiding feature in Nigeria for decades. He notes that except for the period 1971 to 1974, and 1979, there has been an overall deficit in the federal Government budgets each year since 1960 to date. He asserted that the chronic budget deficits and their financing, largely by borrowing, have resulted in excessive money supply, worsened inflationary pressures, and complicated macroeconomic instability, resulting in negative impact on external balance, investment, employment, and growth. He, however, contends that fiscal policy will be an effective tool for moving Nigeria towards the desired state in 2010 only if it is substantially cured of the chronic budget deficit syndrome it has suffered for decades.

As noted by Babangida (1993), the lack of fiscal discipline is the bane of our economy. In spite of realized revenues being above

budgetary estimates, extra budgetary expenditure has been rising so fast and resulting in a bigger deficit. To say the least, this is a sobering revelation and there is need to ensure that the deficit is not only minimized but eventually eliminated. The practice of financing the fiscal deficit through the banking system, especially the Central Bank's Ways and Means facility, results in rapid growth of domestic liquidity. This in turn exerts immense pressures on prices, interest rates, and exchange rate of the Naira. As an illustration, between 1988 and 1991, an average of 77 percent of the overall deficit was financed by the CBN. In 1992, the deficit had been largely financed by the CBN. As a direct consequence, the monetary and credit aggregates have been exceeding prescribed targets in recent years. Folorunsho and Abiola (2000) examine the long-run determinants of inflation in Nigeria between 1970 and 1998, using the econometric methods of co-integration and error correction mechanism. They found that inflation in Nigeria could be caused by the level of income, money supply, and public sector balance. The results also indicate that in the long run, exchange rate, money supply, income, and fiscal balance determine the inflation spiral in Nigeria. The study concludes that a reduction in fiscal deficits, an increase in domestic production, and a table exchange rate should be pursued as means of controlling inflation in Nigeria.

There has been a strong deficit bias and pro cyclically in fiscal policy, which has been largely driven by oil prices in 1991-1992 and 2000-2002. More so, revenue and expenditure have increased sharply. This has typically followed the scaling back of expenditures as oil prices substantially decline, though at times with a lag. According to Baunsgard (2003), experience in Nigeria illustrates the difficulties of implementing fiscal policy in an environment with highly volatile revenue flows. The resultant effect of such boom-burst fiscal policies includes spread of oil-price volatility to the stable provision of government services. This has added to the failure over the years of public spending, facilitating the diversification and growth of the economy. There is no doubt that the failure of government fiscal policies, rather than the failure of monetary policies, is the main reason why most of the past developmental programmes undertaken by the government have come to naught (Ezeoha & Uche, 2010).

2.2 Theoretical Framework

2.2.1 The Ricardian View of Budget Deficits

In the Ricardian perspective, a deficit financed cut in current taxes for a given path of government spending leads to higher future taxes that have the same present value as the initial cut. Hence holding fixed the path of government expenditures and non-tax revenues, a cut in today's taxes, must be matched by a

corresponding increase in the present value of future taxes. But an argument was that the present value of taxes would not change as long as the present value of spending did not change. Therefore, the substitution of a budget deficit for current taxes (or any other re-arrangement of timing of taxes) has no impact on the aggregate demand for goods. In this sense, budget deficits and taxation have equivalent effects on the economy.

Put in another way, the Ricardian Equivalent Theorem believe that, a decrease in the government's savings (that is a current budget deficit) leads to an offsetting increase in desired private saving, and to no change in desired national saving, in a closed economy; hence there is no effect on investment, and no burden of the public debt. And in an open economy there would also be no effect on the current account balance because desired private savings rises by enough to avoid having to borrow from abroad. Therefore, budget deficit will not cause current account deficits.

2.2.2 The Neoclassical View of Budget Deficits

The Neoclassical posits that there exist three central features that play an important role in determining the impact of budget deficits. They maintained that, first, the consumption of each individual is determined as the solution to an intertemporal optimization problem, where both borrowing and lending are permitted at the market rate of interest. Secondly is that individuals have finite

lifespan; and thirdly that, market clearing are generally assumed in all periods. Much literature that builds upon Hall's (1978) formulation of the stochastic permanent income hypothesis that investigates the empirical validity of the neoclassical first feature. According to King (1983) and Hayashi (1985), states that consumers behave as though they solve an intertemporal optimization problem with access to perfect capital markets.

Despite numerous problems with estimation and interpretation, the evidence on balance supports the view that a sizable minority, say 20% of individuals fails to behave in a way that is consistent with unconstraint intertemporal optimization. The neoclassical second characteristic (finite lifespan) defines the central difference between the neoclassical and Ricardian frameworks. And the third characteristic (full employment) is the primary distinction between the neoclassical and Keynesian paradigms.

2.2.3 The Keynesian View of Budget Deficits

The Keynesian view differs from the neoclassical paradigm in two fundamental ways. First is that it allows for the possibility that some economic resources are unemployed. And secondly is that it presupposes the existence of large number of myopic, liquid constrained individuals.

In the simplest and most naïve Keynesian model, increasing the budget deficit by one dollar ($1) causes output to expand by the

inverse of the marginal propensity to save. The standard IS-LM analysis of monetary economies, this expansion of output raises the demand for money. If the money supply is fixed (that is the deficit is bond financed), interest rates must rise and private investment falls. This in turn reduces output and partially offsets the Keynesian multiplier effect.

Many traditional Keynesians argue that deficits need not crowd out private investment. Eisner suggests that increased aggregate demand changes the profitability of private investment and lead to a higher level of investment at any given rate of interest. Thus, deficits may actually stimulate aggregate saving and investment despite the fact that they raise interest rates. In Eisner's view, increased consumption is supplied from otherwise utilized resources.

2.3 Empirical Review

Nwanna and Umeh (2019) employed Ordinary Least Square (OLS) estimation technique coupled with Augmented Dickey Fuller (ADF) unit root test, Johansen Co-integration test and normality test to examine the effect of budget deficit on Nigeria's economic growth between 1981 and 2016. The results indicate that financing budget deficit through external debts has significant negative impact on Nigeria's economic growth while domestic debt has significant positive effect, but debt service has no effect on the economic

growth. Therefore, the study suggests that external debts for financing budget deficit must be properly managed by reducing corruption, linkages and wastages in the system.

Ezeanyeji, Imoagwu and Ejefobihi (2019) examined the relationship between public debt and inflation in Nigeria for the period 1981 to 2017. The Augmented Dickey-Fuller (ADF) test, co-integration test and Error Correction Model (ECM), were employed in the analysis. The results of the analyses revealed that public debt, exchange rate and money supply have positive and significant impact on inflation in Nigeria. Also, real GDP growth rate has negative and statistically insignificant impact on inflation in Nigeria.

Ahmed and Alamdar (2018) investigate the effects of budget deficit and corruption on private sector investment in Pakistan. Annual time series data were used to examine the long run and short run relationship between the variables for the period between 1985 and 2015. Johansen and Juselious (1990) method was used for the cointegration test while Error Correction Model was applied for the short-run analysis. The results, among others show that budget deficit indeed crowds out private investment in Pakistan.

Noveski (2018) probe the impact of the budget deficit on Gross Domestic Product (GDP) per capita in Macedonia using a multiple

regression model with data spanning from 1996 to 2015. The results indicate that budget deficit does not affect significantly the GDP per capita; thus, supporting the Ricardian equivalence theory.

Nwakobi, Echekoba and Ananwude (2018) determined the effect of fiscal deficit on selected macroeconomic variables in Nigeria by specifically evaluating the effect of fiscal deficit on gross domestic product, money supply and inflation. The study employed various econometric techniques such as unit root test, Johansen co-integration, granger causality test in which variations in gross domestic product, money supply and inflation were regressed on fiscal deficit and exchange rate using time series data from 1981 to 2015. Secondary data casing the time frame were collected from Central Bank of Nigeria statistical bulletin. The result of the analysis revealed that fiscal deficit has no significant effect on gross domestic product, money supply and inflation in Nigeria. The finding also showed that there is a positive insignificant relationship between fiscal deficit and gross domestic product. This is in line with the Keynesian postulation of the existence of positive relationship between fiscal deficit and macroeconomic variables.

Onwioduokit and Inam (2018) investigated the relationship between budget deficits and economic growth in Liberia. The study employed Classical Ordinary Least Squares Technique (OLS) and Co-

integration test using Engle-Granger Two-Step procedure (EGTS); and a parsimonious Error Correction Model. It was evident from the analysis that there exists a long run relationship between Budget deficit and economic growth in Liberia. There also exists a positive and significant relationship between Budget deficit and economic growth in Liberia. Therefore, a 1.0 percent increase in deficits will result in an increase of approximately 0.42 percent in economic growth in Liberia.

Ubi and Inyang (2018) descriptively appraised the implication of fiscal deficit on Nigeria's economic development from 1980 to 2016. The study disclosed that Nigeria's fiscal deficit has contributed positively to the growth of per capita income, economic growth and stabilization of Balance of payments only but did not reduce unemployment and inflation rates.

Bazza, Binta and Alhaji (2018) evaluated the impact of deficit financing on economic growth in Nigeria for the period spanning from 1981 to 2016 using the ARDL Technique. The result from the ARDL regression estimate showed that government deficit finance over the years had significantly impacted on the output growth of Nigeria.

Momodu and Monogbe (2017) examined the influence of budget deficit on economic performance in Nigeria using time series data

between the periods 1981 to 2015.Findings established that Budget deficit significantly stimulate economic performance. The output of the VAR estimate established that the lag value of federal government budget deficit has contributed to performance of the economy in the current year although the contributive quadrant is not been felt to a reasonable extent. These empirical findings support the Keynesian postulation of significant relationship between budget deficit and economic performance.

Olatunde and Temitope (2017) ascertained the effect of fiscal deficit on sectoral output in Nigeria from 1981 to 2015. Five sectors namely; agricultural sector, industrial sector, building and construction sector, wholesale and retail trade sector and service sector were selected for the study. Autoregressive distributed lag is used as the estimating technique. The result showed that fiscal deficit has negative effect on agricultural, building and construction, industrial and wholesale and trade sector in the short run, while in the long run, fiscal deficit has negative effect on the following sectors: agricultural, building and construction, service and wholesale and trade. For industrial sector, fiscal deficit has positive effect in the long run.

Hussain and Haque (2017) studied the effect of deficit financing on economic growth in Bangladesh. findings from the VECM for BBS

data reveal that there is a positive and significant relationship between FD and GDPGR, supporting the Keynesian theory, while findings from the VECM for World Bank data indicate that the impact of Fiscal Deficit (FD) on GDPGR is mild but negative and significant at the 5% level.

Epaphra (2017) applied Vector Autoregression (VAR) - Vector Error Correction Model (VECM), and variance decomposition techniques to examine the relationship between budget deficits and selected macroeconomic variables in Tanzania with data spanning from 1966 to 2015. The results indicate that there is a significant negative relationship between real GDP, exchange rate, and budget deficit in Tanzania. Further analyses revealed that external financing of the budget deficit has been higher than domestic financing with its high servicing cost gulping funds that should have been used to finance development

Osuka and Achinihu (2014) evaluated the impact of budget deficits on macro-economic variables in the Nigerian economy for the period 1981-2012. The study found out that the variables in the study are all cointegrated of order one showing the presence of long-run relationship between employed variables (GDP, interest rate, nominal exchange rate and inflation rate). However, the test for causality showed that there exists no causality between deficits

and interest rate, budget deficits and inflation and budget deficit and nominal exchange rate. They thereby concluded that budget deficits exert significant impact on the macroeconomic performance of the Nigerian economy.

Nwanne (2014), investigated the implications of budget deficit financing on economic stability in Nigeria between 1970-2013 using the econometric tool of OLS. The author adopted external source of deficit financing, non-banking public source of deficit financing, exchange rate as independent variables, ways and means source of deficit financing, banking system source of deficit financing and interest rates as independent variables. Economic growth was proxy with gross domestic products. The study revealed that external source of deficit financing, non-banking public source of deficit financing and exchange rate has significant and positive relationship with gross domestic product. On the other hand, ways and means source of deficit financing, banking system source of deficit financing and interest rates have negative implications on gross domestic product.

Onuorah and Nkwazema (2014) who examined the effect of Deficit Financing on economic growth in Nigeria. The study utilized data from publications of the Central Bank of Nigeria Statistical Bulletin between 1981- 2012. The study applied descriptive statistics, OLS,

Diagnostic test, ADF unit root, Johansen Co-integration and pairwise Granger causality test and their findings showed that the variables were stationary at first difference data I(1). The variables were jointly co-integrated at 5% level. Showing that Deficit Financing was seen to be statistically significant and positively related to economic growth in Nigeria.

Iya, Aminu and Gabdo (2014), studied an empirical analysis of the effect of fiscal deficits on economic growth in Nigeria. The authors applied the OLS techniques, Augmented Dicky Fuller technique, Granger causality test and Johansen co-integration test. The results of the unit root test suggested all the variables of the model are stationary at the first instance. The overall finding of this paper shows that government fiscal deficit has no significant effect on real GDP, hence, the need for fiscal deficit in Nigeria is minimal.

Paiko (2012) examined the impact of government expenditures on private investment and also how the financing of budget deficit has not only affected the performance of private investment but also how it crowds out private investment in Nigeria over the time period of 1990 to 2010. Secondary data from CBN statistical bulletin and Bureau of statistics bulletin were used. Econometric models of OLS were used in examining the relative impact of deficit financing on private investment in Nigeria. The findings revealed a negative

relationship between deficit financing and investment in the period under review.

Ezeabasili and Nwakoby (2013) investigated the relationship between Fiscal Deficits and Private Investment within the Nigerian context, using data over 1970-2006. A modelling technique that incorporates co-integration and structural analysis was adopted. Evidence shows that there is a positive long run relationship between private investment and real growth of the national economy.

Adesuyi & Falowo (2013) examined the relationship between fiscal deficit and the Nigeria economy; the work assessed and investigated the impact fiscal deficit has on the economy given variables like fiscal deposit ratio, external debts and domestic loans. It was discovered that fiscal deposit has made a significant contribution to GDP and economic growth in Nigeria.

Jubrin (2011) studied the effect of budget deficit and its impact on Nigeria economic growth and development, between 1995 and 2008, with the essence of exposing how deficit financing has accentuated economic growth with the Keynesian economic theory as the basis of the study; found out that there is a positive influence of deficit finance on economic growth after using the OLS. The study revealed that since government cannot provide all the

resources it needs to fund its entire activities at any given point in time, the source available to the government in addition to increase in taxes, which most time is resisted is to borrow from both within and outside the country.

Nwodo (2000) analysed the long-run effect of budget deficit on economic growth of Nigeria for the first half of the 1990s using the OLS. The main findings were that budget deficit did matter, but only to the extent it contributed to the money growth and if not checked, induces inflation, hence, leading to a distorted economy. As most of the budget imbalance was being monetized during that period, it is no surprise that independent influence of the budget deficit on the GDP growth was not found.

Vincent, Ioraver and Wilson (2012) investigated the relationship between fiscal deficit and economic growth in Nigeria using modeling technique that incorporates co-integration and structural analysis at 5% (0.05) level of significance from 1970 to 2006. The study with the help of co-integration techniques indicates that fiscal deficit affects economic growth negatively, that there is one percent increase in fiscal deficit which is capable of diminishing economic growth by about 0.023 percent and there is a strong negative relationship between government consumption expenditure and economic growth.

Onyeiwu (2012) investigated the relationship between domestic debt and the growth of Nigeria economy. Parsimonions model, error correction model and ordinary least square (OLS) were used for analysis. He employed gross domestic product as dependent variable while foreign exchange rate, credit to private sector, budget deficit, money supply domestic debt. It was found that the domestic debt holding of government is far above a healthy threshold of 35 percent of bank deposit s the average over the period. This means that the level of bank deposit is presenting evidence of crowding out private investments. The study also indicates that the level of domestic debt in Nigeria has negative effect on economic growth. The study recommends that Nigeria government should maintain a debt – bank deposit ratio below 35 percent and resort to increase in the use of tax revenue to finance its project and should not involve in any project that private sector can handle while providing enabling environment for private sector investment to operate.

Osuji and Ozurumba (2013) investigated the impact of external debt financing on economic development in Nigeria using stationarity test, co-integration test and vector error correction model. The study shows that London debt financing possessed positive impact on economic growth while Paris Club debt and

Promissory Note were inversely related to economic development in Nigeria. The study recommended that debt services should be cancelled to encourage survival of SMEs in Nigeria.

Ojong and Hycenth (2013) examined the effect of budget deficit financing on the development of the Nigerian economy using ordinary least square (OLS) regression techniques. It was found that there is a significant relationship between economic growth and government expenditure and there is no significant relationship between government revenue and economic growth in Nigeria. The study recommends that the government should maintain a high level of transparency in governance so as to bring to the barest minimum the level of deficit financing.

Okoro (2013) used granger causality and vector auto regression (VAR) techniques to test the hypothesis that deficit financing affects trade balance in Nigeria between 1980 to 2008. It was found that through short run dynamics result; there is positive relationship between deficit financing and trade balance (surplus). While the long run result posits that an increase in deficit financing diminishes trade deficit in Nigeria. This means that deficit financing is an available instrument for government to improve trade in the short run and in the long run, deficit financing could be used to reduce trade deficit in Nigeria if properly managed by government.

Akinmulegun (2014) in a study of deficit financing and its effect on economic growth in Nigeria employing the econometric technique of Vector Auto Regression (VAR) Model. The relevance variables used are as follows: real gross domestic product (RGDP), the gross capital formation (GCF), the real interest rate (RINTR), inflation rate (INFR) and budget deficit. It was discovered that deficit financing has not contributed significantly to economic growth in Nigeria. This is because of the negative impact of deficit financing on economic growth during the period under review. The study recommends that government should reduce unnecessary public spending, ensure greater budget discipline and adopt a financial structural transformation that can help to reduce wastage in public spending.

2.4 Summary of Review

Based on the literature reviewed on budget deficit and its implication on economic growth in Nigeria. There were no general consensus on budget deficit and its implication on economic growth in Nigeria. Nwanna and Umeh (2019); Nwakobi, Echekoba and Ananwude (2018) and Noveski (2018) agreed that government fiscal deficit has no significant effect on real GDP while Bazza, Binta and Alhaji (2018); Ubi and Inyang (2018); Onwioduokit and Inam (2018) were of the opinion that Deficit Financing was seen to be statistically significant and positively related to economic growth in Nigeria.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Research Design

The research employed descriptive research design. This method is used because it addresses the objective of the study in investigating the relationship between variables of the study (Kothari, 2004). The design takes into consideration aspects like the sample size in relation to the target population, the variables under the study, the approaches to the research, and the methods employed in data collection.

3.2 Population of the Study

The population of the study consists of the entire Nigerian economy.

3.3 Sampling Techniques/Sample

The technique applied in determining the sample size for this study is the purposive sampling method. By this method the researcher pre-determines his sample elements. The sample size for this study consists of variables of deficit financing (Gross Domestic Product, Total Domestic Debt, Total External Debt and Interest Rate) within the period 2000-2021.

3.4 Data Collection

Data collection refers to the means by which information is obtained from the selected subjects of an investigation or a study. The type

of data collected for this study was secondary data for the purpose of analyzing the impact of deficit financing on the growth of Nigerian economy. The secondary data source is Central Bank of Nigeria statistical bulletin.

3.5 Method of Data Analysis

The ordinary least square (OLS) of Multiple Regression analysis model was used to determine the effect of independent variables on the dependent variable and was measured through Correlation coefficient used to investigate how the independent variables inter-relate with the dependent variable(s).

3.6 Model Specification

The model for this study follows a linear combination of some deficit finance variables exerting some influence on the growth of Nigerian economy. Thus, the model is specified in functional form as follows:

RGDP = F (TDD, TED, INTR) ……..... (1)

The Equation 1 was transformed into econometric model, thus it becomes

$GDP = \alpha_0 + \alpha_1 TDD + \alpha_2 TED + \alpha^3 INTR + ut$ ……..……(2)

Where

GDP = Gross Domestic Product

TDD = Total Domestic Debt

TED = Total External Debt

INTR= Interest Rate

CHAPTER FOUR

DATA PRESENTATION ANALYSIS AND HYPOTHESIS TESTING

4.1 Data Presentation

This chapter presents the analysis and interpretation of data generated to investigate the impact of deficit financing on economic growth in Nigeria. The secondary data used in the study cover the period of eighteen years 2000-2021).

Year	TED	TDD	INTR	RGDP
2000	3,097.38	898.25	10.44	23,688.28
2001	3,176.29	1,016.98	10.09	25,267.54
2002	3,932.88	1,166.00	15.57	28,957.71
2003	4,478.33	1,329.68	11.88	31,709.45
2004	4,890.27	1,370.33	12.21	35,020.55
2005	2,695.07	1,525.91	8.68	37,474.95
2006	451.46	1,753.26	8.26	39,995.50
2007	438.89	2,169.63	9.49	42,922.41
2008	523.25	2,320.31	11.95	46,012.52
2009	590.44	3,228.03	12.63	49,856.10
2010	689.84	4,551.82	7.19	54,612.26
2011	896.85	5,622.84	6.30	57,511.04
2012	1,026.90	6,537.53	7.63	59,929.89
2013	1,387.33	7,118.97	6.72	63,218.72
2014	1,631.50	7,904.02	9.89	67,152.79
2015	2,111.51	8,837.00	8.26	69,023.93
2016	3,478.91	11,058.20	5.46	67,931.24
2017	5,787.51	12,589.50	7.73	68,490.98
2018	7,759.20	12,673.89	7.99	69,810.02
2019	8,923.23	12,589.50	8.03	71,387.63
2020	12,705.62	13,012.01	9.01	70,123.09
2021	13.903.01	13,862.12	10.50	73,912.09

Source: CBN statistical Bulletin of various issues

4.2 Data Analysis

The presentation of the data used are summarized in the descriptive statistics in Table 1

Variable	Mean	Median	Minimum	Maximum	Std. Dev.	Skewness	Kurtosis
RGDP	1995.5	0.2995.0	1981	2010	8.803408	0.0000	1.79733
TED	11030.16	0.1152	2331.20	4890270	14507.90	1.453645	3.685544
TDD	518.4667	567352.6	207	1432	3556414	1.337846	3.561127
INTR	1411.6	0.1151	24521	1234	23456	0.12390	3.12348

Source: Authors Computation using E-views 9

Table 4.1 revealed the nature of the independent variables on the model. It shows that all the independent variables have high minimum and maximum values of the series. The table shows that the Total Domestic Debt (TDD) maintains the highest value 4890.270 against the Total External Debt (TED) 1432.000 and Interest rate of 1234. Furthermore, Total Domestic Debt (TDD) exhibits the lowest standard deviation which shows that the deviations from the mean value are small or compared to that of the Total External Debt (TED). Given that the median of Total Domestic Debt (TDD) and Total External Debt (TED) have greater median values than the mean values this shows that the data series were normally distributed are and positively skewed in nature and could be use to predict the Nigeria deficit condition.

The regression results

This sub-section gives the results on the impact of deficit financing on economic growth. Table 2 presents the regression result of the

dependent variable RGDP and the independent variables of the study (TED,TDD and INTR).

$RGDP = \beta_0 + TED + \beta_1 TDD + u$…….. (2)

Table 2: Summary of Regression Result

Variable	Coefficient	Std. error	t-statistics	Prob. Value
C	0.61319	1.0118	1.0465	0.0260
TED	3.32671	0.0612	-5.1631	0.0002
TDD	4.64132	0.0521	2.6413	0.0003
INTR	-1.67102	0.9011	3.1239	0.0002

R-squared	0.620622
Adjusted R-squared	0.594899
DW Stat	1.92242
F-statistic	30.01121
Prob(F-statistic)	0.000047

Source: Regression result from (E-view version 9)

The results in Table 2 above show that when RGDP was utilized as dependent variable to measure the impact of Deficit financing on economic growth. Total External Debt (TED) has a coefficient of 3.3267 and a pro value of 0.002 which is statistically significant at 5%. This implies that a Total External Debt (TED) has positive significant on economic growth in Nigeria

Similarly, Total Domestic Debt (TDD) has a pro value of 0.003 and a coefficient value of 4.6413. This implies that domestic debt has positive and significant effect on economic growth in Nigeria.

Interest Rate (INTR) has a pro value of 0.002 and a coefficient value of -1.67102. This implies that interest rate has negative and significant effect on economic growth in Nigeria.

The model shows that R^2 is about 62% implying that the variable used account for 62% variation in the dependent variable. The model also satisfied the test of auto correlation as the DW statistics is 1.92 that is there is the absence of autocorrelation.

F-Statistics

The F-statistics which is used to determine the overall significance of the entire regression model yielded an F-value of 30.01121. This implies that the entire regression model is statistically significantly.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.1 Summary of Findings

Based on the objectives of the study and hypotheses formulated the following are the summary of findings

i. Total External Debt (TED) has positive significant on economic growth in Nigeria

ii. Total Domestic Debt (TED) has positive significant on economic growth in Nigeria.

iii. Interest rate has a negative and significant effect on economic growth in Nigeria.

5.2 Conclusion

It was observed from the findings that external borrowing in Nigeria has translated to the growth of the economy given the positive relationship exhibited between the gross domestic product and the predictor variables: external and domestic debt. Given the findings, the study concluded that debt is not an economic burden to the Nigerian economy.

5.3 Recommendations

The study, therefore, suggests that:

i To make external borrowing more productive, government should be prudent in the management of the country's borrowed funds

and also put in place policies that will direct the allocation of fund to projects that will promote economic growth.

ii Debt Management Office (DMO) should set mechanisms in motion to ensure that domestic debts are utilized for the purpose for which they were acquired. This could be achieved through proper monitoring of the use to which the funds are put for maximum output.

iii. The central bank of Nigeria should reduce interest rate to single digit to encourage investment and economic growth.

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Appendix

Year	TED	TDD	INTR	RGDP
2000	3,097.38	898.25	10.44	23,688.28
2001	3,176.29	1,016.98	10.09	25,267.54
2002	3,932.88	1,166.00	15.57	28,957.71
2003	4,478.33	1,329.68	11.88	31,709.45
2004	4,890.27	1,370.33	12.21	35,020.55
2005	2,695.07	1,525.91	8.68	37,474.95
2006	451.46	1,753.26	8.26	39,995.50
2007	438.89	2,169.63	9.49	42,922.41
2008	523.25	2,320.31	11.95	46,012.52
2009	590.44	3,228.03	12.63	49,856.10
2010	689.84	4,551.82	7.19	54,612.26
2011	896.85	5,622.84	6.30	57,511.04
2012	1,026.90	6,537.53	7.63	59,929.89
2013	1,387.33	7,118.97	6.72	63,218.72
2014	1,631.50	7,904.02	9.89	67,152.79
2015	2,111.51	8,837.00	8.26	69,023.93
2016	3,478.91	11,058.20	5.46	67,931.24
2017	5,787.51	12,589.50	7.73	68,490.98
2018	7,759.20	12,673.89	7.99	69,810.02
2019	8,923.23	12,589.50	8.03	71,387.63
2020	12,705.62	13,012.01	9.01	70,123.09
2021	13.903.01	13,862.12	10.50	73,912.09

(2000-2021)

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SCHOOL OF BUSINESS STUDIES,
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EDO STATE

NOVEMBER, 2022

BUDGET DEFICIT AND ITS IMPLICATION ON THE NIGERIAN ECONOMY
(2000-2021)

SYLVANUS NGOZI ESTHER
MAT. NO/SBS/2282060245

PROJECT SUBMITTED TO THE DEPARTMENT OF BANKING AND FINANCE, IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF HIGHER NATIONAL DIPLOMA (HND), IN BANKING AND FINANCE
SCHOOL OF BUSINESS STUDIES,
AUCHI POLYTECHNIC AUCHI, EDO STATE.

CERTIFICATION

We, the undersigned certify that this research work titled **BUDGET DEFICIT AND ITS IMPLICATION ON THE NIGERIAN ECONOMY (2000-2020)** was carried out by **SYLVANUS NGOZI ESTHER** with **MAT. NO/SBS/**

SBS/2282060245 in the Department of Banking and Finance, School of Business Studies, Auchi Polytechnic, Auchi.

We also certify that the work is adequate in scope and content in partial fulfillment of the requirements for the award of Higher National Diploma (HND) in Banking and Finance.

.....	**.....**
Mr. Okolie Sylvester	**Date**
Project Supervisor	

.....	**.....**
Mr. Musa Abdulai	**Date**
(Ag. Head of Department)	

DEDICATION

We dedicate this project to God Almighty

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Abstract

The study empirically examined budget deficit and its implications on economic growth in Nigeria. The specific objectives were; to examine the impact of external debt, domestic debt and interest rate on economic growth in Nigeria. Secondary sources of data was extracted using statistical bulletin of Central Bank of Nigeria and the adoption of multiple regression analysis. Based on the analysis, the following findings revealed thus; external debt and domestic debt have significant effect on economic growth in Nigeria. The following recommendations were proffered; to make external borrowing more productive, government should be prudent in the management of the country's borrowed funds and also put in place policies that will direct the allocation of fund to projects that will promote economic growth also Debt

Management Office (DMO) should set mechanisms in motion to ensure that domestic debts are utilized for the purpose for which they were acquired. This could be achieved through proper monitoring of the use to which the funds are put for maximum output.

TABLE OF CONTENTS