



Does Deficit Financing Promote Economic Growth? The Nigerian Experience

Dr. Boniface L. Akpan¹, Dr. Aniefiok B. Udo², Ededet B. Eduno³ & Ekere Daniel⁴

1, 2 & 3 Department of Economics, Akwa Ibom State University, Nigeria

2 Department of Economics, Topfaith University, Mkpatak, Nigeria

Abstracts

The Nigerian government has been running huge deficits since the civil war years. The deficit as percentage of GDP has continued to be on the increase and evidence is in the escalating public debt. This study examined the effect of fiscal deficit financing on economic growth in Nigeria by using the Error correction mechanism to estimate the specified model based on the Neo-Classical Theoretical underpinning of economic growth. The result reveals that an increase in External Deficit Financing will bring about a 0.8 per cent increase in economic growth, an indication that External Deficit Financing has a positive relationship with economic growth. Also, an increase in non-banking deficit financing will bring about a 2.24 per cent increase in economic growth, an indication that non-banking deficit financing has a positive relationship with economic growth. For banking source of deficit financing, the result also revealed that an increase in Banking Deficit Financing will bring about a 6.7 per cent increase in economic growth, an indication that Banking Deficit Financing has a positive relationship with economic growth. However, none of the explanatory variables were statistically significance. The granger causality result showed that there is no causal relationship between Real Gross Domestic Product and External Deficit Financing. Therefore, the study concludes that that there is no significant relationship between the sources of fiscal deficit financing and economic growth Nigeria.

Keywords: Fiscal Deficit; Financing; External Borrowing; Public Debt and ECM

1.0 INTRODUCTION

Fiscal deficit, a situation where current expenditure exceeds current expected income, has become a recurring feature of public sector financing in Nigeria. The Nigerian government has been running huge deficits since the civil war years. The deficit as percentage of GDP has continued to be on the increase and one immediate result is the escalating public debt. Budget deficit has a deleterious effect on monetary policy. It is also been observed that large budget deficits cause increase in money growth and inflation (Levy, 1981; Egwaikhidi, 2005). For the years 2000-2004, the fiscal operation recorded an increase. For instance, in 2000, 2001, 2002, 2003 and 2004, fiscal deficit stood at ₦103,800 million, ₦221,000 million, ₦ 301,400 million, ₦202,700.00 million and ₦142,000 million respectively. The ratios of deficit financing to gross domestic product were 85.63, 174.94, 229.21, 148.53 and 97.67 respectively. These reflect expansion in deficit operations for the years. The low deficit recorded in 2001 (₦103, 800 million) as compared with 1999 deficit of ₦285, 104.7 million was attributed to the increased revenue, particularly from the oil sector and the restraint on expenditure (Udo, Boniface & Nsor 2023). The year 2001 recorded an increase in deficit of ₦221, 100.0 million as compared with deficit of 2000 due to a decline in actual oil revenue relative to the budget estimate for 2002 following the reduction of Nigeria's export volume of crude oil. In 2003, deficit decline to ₦202, 700.0 million and compared with preceding year. This attributed to the increase revenue from crude oil sector and the due process of carrying out government business. In 2004 fiscal deficit operations results a lower deficit of ₦172, 600.0 million as compared with the preceding year. These downwards reduction in deficit operations in Nigeria was attributed to the stock of Nigeria's external debt falling significantly from US\$ 20.5 billion to US\$ 3.25 billion in 2006. Consequently, the consolidated public debt in 2006 declined to ₦2, 204.7 billion or 12.1% of GDP from ₦4, 221.0 billion or 28.3% of GDP in 2005.

Still on the trend, external borrowing stood at its peak in 2017 and 2018, recording ₦1,240.4 billion and ₦1,073.3 billion as sums borrowed by the federal government while internal borrowing stood at ₦2,369.0 billion and ₦2,554.8 billion in the same years. For the past two decades in Nigeria, government borrowing saw an all-time low sum in 2008 (Akpan & Aniefiok 2023). In 2020, it stood at an all-time astronomical height of ₦6171.8 billion. This could be attributed to the massive spread of the Corona Virus pandemic that kept all nations of the world in their tents. This was necessary to meet up important ends like providing palliatives to the active poor, setting up of isolation centers, payment of wages to medical personnels, etc. In all, real GDP has been on the increase from 1981 to 2021 as observed in the CBN Statistical Bulletin.

According to Udo & Charles (2023) and Udo, Charles & Ogar (2016) the main objective of deficit management over the years is that of promoting accelerated economic growth as a base for achieving higher per capita income and social welfare. The Keynesian demand side economics emphasizes the need for government expansion in public expenditure even beyond current income, particularly during depression when the economy suffers from an insufficiency of active demand such as the Great Depression of 1929 to 1932 and the 2008 Global Financial and Economic crisis. This will thereby increase the demand for productive output resulting in unemployment reduction (Anyanwu and Oaikhenan 2005, Ogburu, 2006; Njoku & Boniface 2017). The policy of fiscal deficit has however posed challenges to the Nigerian economy with regards to its effectiveness and the accumulation of debt, the justification from growth notwithstanding.

Taking into cognizance that some studies have been done on deficit financing in Nigeria, a presentable framework for the dynamic changes in economic growth in Nigeria has not been completely dealt with in those studies. The question of the effect of fiscal deficit financing on economic growth in Nigeria has not been completely dealt with in these studies. Probably due to the various estimation technique that have been used for the studies. The question of the effect deficit financing has on economic growth still lingers in the hearts of many. It is for this reason this study has attempted to examine the impact of fiscal deficit financing on economic growth in the Nigerian economy.

2.1.2 Fiscal Deficit Financing in Nigeria (1981-2021)

Nigeria's budget deficit experience dates back to 1961 and appeared justified during the immediate post-independence era. Since then till now about 85% of Nigeria's budget runs in deficit. Deficit financing arises largely because of the need to expand the economy, government's inability to execute capital projects that expands the economy births deficit. Government can either finance these projects through internal borrowing, external borrowing or the implementation of monetary instrument to increase the flow of funds in the economy. However there is a repel effect of on the economic performance of any country whom the state of its economic activities are financed through the prolonged debt from foreign countries because it frustrates sole investors due to the high interest rate.

For the years 2000-2004 the fiscal operation recorded an increase. For instance in 2000, 2001, 2002, 2003 and 2004 total financing stood at ₦103, 800 million, ₦221, 000 million, ₦301,400 million, ₦202,700 million and ₦143, 000 million respectively. The ratios of deficit financing to gross domestic product were 85.63, 174.94, 229.21, 148.53 and 97.67 respectively. These reflect expansion in deficit operations for the years. The low deficit financing record in 2001 as compared with 1999(which was ₦285, 100 million) was attributed to the increased revenue particularly from the oil sector and the restraint on expenditure. The year 2001 recorded an increase in government borrowing of ₦221, 100 million as compared with the deficit of the year 2000 due to the decline in actual oil revenue relative to budget estimate of 2002 following the reduction of Nigeria's export volume of crude oil. In 2003, total borrowing declined to ₦202, 700 million compared with the preceding year. This was attributed to the increased revenue from crude oil and the due process of carrying out government business. In 2004, government borrowing was ₦172, 600 million as compared with the preceding year. These downwards reduction in deficit operations in Nigeria was attributed to the stock of Nigeria's external debt falling significantly from US\$ 20.5 billion to US\$ 3.25 billion in 2006. Consequently, the consolidated public debt in 2006 declined to ₦2, 204.7 billion or 12.1% of GDP from ₦4, 221.0 billion or 28% of GDP in 2005 (Akpaniwo & Boniface 2019).

Still on the trend, external borrowing stood at its peak in 2017 and 2018, recording ₦1, 240.4 billion and ₦1,073.3 billion as sums borrowed by the federal government while internal borrowing stood at ₦2,369.0 billion and ₦2,554.8 billion in the same year. For the past two decades in Nigeria, government borrowing saw an all-time low sum in 2008. In 2020, total borrowing stood at an all-time astronomical height of ₦6, 171.8 billion. This could be attributed to the massive spread of corona virus pandemic that kept all nations of the world in their tents. This was necessary to meet up important ends like providing palliatives to the active poor, setting up of isolation centers, payment of wages of medical personnel etc.

2.0 Literature Review

2.1 The Concept of Economic Growth

Economic growth highlights the increase in goods and services produced by an economy or country determined on short-term basis (usually a fiscal year). Economic growth is adjudged single dimensional in nature as it only focuses on the national income or national output. Gross domestic product (GDP) is the single best parameter to measure the size of an economy. Clearly, the real GDP reflects the monetary worth of all goods and services produced by an economy in a given year, expressed in base-year prices, and is often referred to as "constant price," "inflation-corrected" GDP or "constant dollar GDP." Unlike nominal GDP, real GDP can account for changes in price level and provide a more accurate figure of economic growth. Alternatively, GDP growth rate evaluates a country's GDP changes or growth from one year to another. The GDP growth rate is represented as a percentage change in a country's GDP, typically, from one year to the next. It also measures how fast the economy is growing by comparing one quarter of the country's GDP to the previous quarter. GDP is commonly expressed in US dollar. Nigeria, South Africa and Egypt are the three biggest economies in Africa based on nominal GDP of US\$444.92, US\$371.27 and US\$237.03 billion respectively (World Development Indicators, 2018). Factors affecting economic growth in sub Saharan African countries:

- i. State of infrastructure (e.g. road network, power supply, transport and communication).
- ii. Level of corruption (e.g. what percentage of tax rates are actually collected and spent on essential goods or services – provision of palliative packages by government against covid-19, etc.).
- iii. Educational standards and ability to be productive. Basic levels of literacy and training determine productivity of the labour force.
- iv. Job mobility: Are workers able and willing to move from relatively unproductive agricultural sector to more productive industrial sector?
- v. Flow of foreign aid in form of official development assistance (ODA). Financial and material assistance provided by government or international organization, especially in times of crisis help improve infrastructure and living standards.
- vi. Level of savings and investment: Higher savings can fund more investment, thus promoting economic growth.

2.2 Theoretical Issues

2.2.1 Neoclassical Theory

The neoclassical theory refers to the economic principles of Adam Smith and his followers which was further developed with the studies of David Ricardo, John Stuart Mill and Reverend Thomas, and was made popular during the years, 1800-1850 (Awolaja and Esefo, 2020; Akpan, Aniefiok, Helen & Okon 2018). According to Okolie and Anidiobu (2020), this School of Thought makes the following claims:

- i. Budget deficit has a negative effect on economic growth, causing real interest rates to grow and private investments to crowd out the economy.
- ii. Government spending financed by borrowing are repayable, and constitutes a burden to future generations.
- iii. Budget deficit leads to a rise in interest rates, which discourages the issue of private bonds, private investments and therefore results to a rise in the level of inflation, and adversely affecting the level of economic growth due to crowding out of resources.
- iv. Excessive deficit financing can lead to poor economic performance and does not necessarily lead to economic growth.

2.2.2 Keynesian Theory

The Keynesian theory was developed by John Maynard Keynes (1883-1946) in 1936. Keynesianism assumes that budget deficit engenders a positive influence on the economy stressing its multiplier effect and/or "crowding in" effect. Okolie and Anidiobu (2020) states that the assumptions of Keynesianism include:

- i. Increased government spending will give rise to increased activity in companies, with employees earning more, which will lead to increased spending on consumer goods.
- ii. Government, deficit financing can reverse downturns (a period economic activity is less successful) by borrowing money from the private sector and plowing back profits to the sector through assorted spending mechanisms.
- iii. Government uses budget deficit to stimulate aggregate demand, that is, totality of spending in an economy by individuals, companies and government in times of recessions and depressions.
- iv. Government involvement in the financial market via deficit financing is the only panacea to promote growth and stability and enforce law and order, efficiency in resource allocation and harmonization of conflict of interest.
- v. Every economy is inherently unstable and requires active government intervention through increased spending to accomplish economic stability.

Keynesianism advocates the following:

- a. When output is below full employment level, either
 - i. Increase public expenditures; or
 - ii. Cut taxes, or
 - iii. Increase public expenditures and cut taxes together.
- b. When output is above full employment level, either
 - i. Cut public expenditures, or
 - ii. Increase taxes.
 - iii. Cut public expenditures and increase taxes together.

2.2.3 Ricardian Equivalence

The Ricardian School of Thought, also known as the Ricardian Equivalence was postulated by David Ricardo, but was later completed by Barro (1989). The theory posits that budget deficit has neither positive nor negative effect on the economy. They emphasize that an increase in budget deficits will be repaid either now or in future because a cut in taxes today must be matched by future increase in taxes thereby leaving real rate of interest, private investment, exchange rate and domestic production unaffected (Awolaja and Esefo, 2020).

This theory is based on two assumptions, which are the assumption of rational expectations and household taxation which states that as budget deficit increases through borrowing, and as taxes reduce, the government will not increase future taxes to repay the interests and debts. Also, they believe that people found out by experience that increase in government bond as a result of decrease in taxes offers temporary revenue for the individual at the present time, and as the debt of government continues to rise, people will save more so as to provide higher tax revenue in the future.

2.2.4 The Endogenous Growth Theory

Romer's endogenous growth theory holds that economic growth is primarily the result of endogenous and not external forces. Endogenous growth theory holds that investment in human capital, innovation, and knowledge are significant contributors to economic growth. The theory also focuses on positive externalities and spillover effect of a knowledge-based economy which will lead to economic development. The endogenous growth theory primarily holds that the long run growth rate of an economy depends on policy measures. For examples, subsidies for research and development or education increase the growth rate in some endogenous growth models by increasing the incentive for innovation. Romer built a formal economic model in which technological change was the outcome of intentional investments by economic agents rather than being the by-product of (physical or human) capital investment through a serendipitous externality called knowledge spillovers.

2.2.5 Neo-Classical Growth Theory

Neo-classical growth theory is an economic theory that outlines how a steady economic growth rate results from a combination of three driving forces i.e. Labour, capital and technology. Robert Solow Trevor Swan first introduced the neoclassical growth theory in 1956. While an economy has limited resources in terms of capital and labour, the contribution of technology to growth is boundless. This growth theory posits that the accumulation of capital within an economy and how people use this capital is important for economic growth. Furthermore, the relationship between the capital and labour of an economy determines the output. Finally technology is thought to augment labour productivity and increase the output capabilities labour. Therefore, the production function of neo-classical growth theory is used to measure the growth and equilibrium of an economy. Increasing any one of the input shows the effect on GDP and, therefore, the equilibrium of an economy. However, if the three factors of neo-classical growth theory

are not all equal, the returns of both unskilled labour and capital on an economy diminish. These diminished returns imply that increased in these two inputs have exponentially decreasing returns while technology is boundless in its contribution to growth and the resulting output it can produce.

2.2.5 The Harold-Domar Growth Theory

The Harold-Domar model was developed independently by Sir Roy Harold in 1939 and Evsey Domar in 1946. It is a good model which states the rate of economic growth in an economy is dependent on the level of saving and the capital output ratio. If there is a high level of savings in a country, it provides funds for firms to borrow and invest. Investment can increase the capital stock of an economy and generate economic growth through the increase in production of goods and services. The capital output ratio measures the productivity of the investment that takes place. If capital output ratio decreases the economy will be more productive, so higher amounts of output is generated from fewer inputs. This again leads to higher economic growth.

It suggests that if developing countries want to achieve economic growth, governments need to encourage saving, and support technological advancement to decrease the country's capital output ratio. The economic reasoning behind the Harold-Domar model is that to grow the economy, a nation must save and invest a certain proportion of its GDP and that the more a nation can save and invest the faster the rate of growth of that economy. However the actual rate of growth of an economy for any level of saving and investment will depend on how much additional output they get from an additional unit of investment.

2.3 Review of Empirical Literature

Okolie and Anidiobu (2020), examined the effect of deficit financing on economic growth and development in Nigeria for the period (1980-2017) using Ordinary Least Square (OLS) estimation technique. The findings of the study showed that external source of deficit financing exerted a negative and significant influence on per capita income, but non-bank domestic source of deficit financing exerted a positive and significant influence on per capita income. Economic implication of result was neither that deficit financing improved macroeconomic performance in Nigeria nor stabilized it within review period. This outcome was ascribed to inept fiscal policies that negated budget discipline. In conclusion, deficit financing remained a veritable mechanism for boosting public revenues and accomplishing desired economic objectives. The study recommended that government should commit deficit financing solely to productive sectors of the economy and adopt fiscal adjustment mechanism that enhances income generation through improved taxes rather than borrowing to finance deficits, among others.

Ifeanyi and Umeh (2019) examined the effect of deficit finance on Nigeria economic growth for the period (1981-2016) using Ordinary Least Square technique of analysis. The research findings revealed that deficit financing through External debt borrowing has a significant negative effect on Nigeria's economic growth. Also Domestic debt has a positive significant effect on Nigeria's economic growth, while Debt service has no significant effect on Nigeria's economic growth. The study therefore recommends that Government should set up monitoring teams that will make sure that the budget is well and carefully implemented and as well as loan borrowed in other to reduce corruption, leakages and wastages. The team will do this by holding everyone accountable for every kobo of government money spent.

Emefiele, Obim and Ita (2019), empirically examined deficit budget and its effect on the growth of the Nigerian economy for the period (1980-2017) using the Ordinary Least Square method of analysis. Their specific objectives were; to examine the effect of deficit, inflation and government expenditure on the growth of Nigeria economy. The findings of the study reveal that there is no significant relationship between deficit budget and economic growth (GDP), no significant relationship between inflation and economic growth (GDP), and a significant relationship between government expenditure and economic growth (GDP). The following recommendations were proffered; government should strive to finance budget deficit by improving on the present revenue base rather than resulting to domestic borrowing. This can be achieved by improving its revenue sources and efficient pursuit of tax reforms. Also recommended is, that effective mechanism should be put in place to ensure that any government spending is judiciously utilized to contribute to economic growth.

Anastasia and Gabriel (2013) studied the effect of deficit financing on the Nigerian economy for the period (1981-2012) in order to understand whether or not Deficit Financing impacts on economic growth. The variables were jointly co-integrated at 5% level showing that Deficit Financing was statistically significant and positively related to economic growth in Nigeria. This suggests that both domestic debt and external debt liability contributes effectively to the settlement of Nigeria debt. In Nigeria with respect to the regression result, it is apparent that domestic debt and external debt remains the crucial source of financing Nigeria debt. The study therefore concluded that so far as a long-run equilibrium relationship exists between the dependent and independent variables, and has assumed that the deficit financing assert sufficient influence on the growth in the debt management and services in Nigeria. This study suggests appropriate combination of internal and external debt ratio with a close monitoring situation. The researcher recommended that the Policy makers should control the level of deficits to ensure that it is within this level. Also, a decrease is required in the level of the deficits could strengthen the exchange rate, and control inflationary pressure in Nigeria.

Nwikina, et al. (2021), examine the effectiveness of deficit financing as a veritable instrument to enhance economic development in Nigeria for the period (1980-2019) employing the Autoregressive Distributive Lag and Granger Causality Test. While human development index was used to measure economic development, budget deficit and government expenditure were used to proxy deficit financing. The results revealed that budget deficit and government expenditure exert positive but marginal influence on economic development in Nigeria. Also, the study shows a unidirectional causality, indicating that deficit financing through government expenditure promotes economic development in Nigeria. Although, the study supports the Keynesian theory with a positive influence, deficit financing value in Nigeria is not substantive enough to drive the needed century-development desired in the economy. Therefore, the study recommended establishment of an institutional framework to monitor the application of budgeted funds. Also, oversight function of state and national assemblies be further be strengthened. Finally, all borrowed fund should be channeled into productive projects capable of enhancing the people's economic well-being as well as servicing the debt. These measures will enhance value for money spent.

Bushi (2021) carried out a theoretical review of the impact of fiscal deficits on economic growth in Nigeria for the period (1980-2018) using the Ordinary Least Square method of analysis. The paper adopted a descriptive method to show the trend of fiscal elements in Nigeria with the aim of determining the relationship between the variables specified. The paper concludes that fiscal

operation is ineffective in providing the needed macroeconomic environment for sustainable growth. This paper further suggests that powerful pro-stability stakeholders strong enough to challenge government fiscal recklessness will need to emerge for sustainable and progressive development to be attained at all levels.

Onyekachi and Festus (2016) investigated the implications of deficit financing on economic stability in Nigeria from 1970 to 2013. The study adopted regression analysis. The study revealed that External Source of Deficit Financing (EXF), Non-banking Public Source of Deficit Financing (NBPF) and Exchange Rate has significant and positive implications on Economic Stability proxy for Gross Domestic Product (GDP), while Ways and Means Source of Deficit Financing (WM), Banking System Source of Deficit Financing (BSF) and Interest Rate (INTR) has negative implications on economic stability in Nigeria. The implication is that government deficit financing through External Source of Deficit Financing (EXF) and Non-banking Public Source of Deficit Financing (NBPF) will maintain economic stability while government deficit financing through Banking System Source of Deficit Financing (BSF) and Ways and Means Source of Deficit Financing (WM) will reduce economic growth thereby causing instability in the economy. We, therefore, recommend that deficit financing in Nigeria should be focused on the productive sectors of the economy. This is because deficit financing has merely resulted in economic instability indicating that sound policies are needed to achieve economic stability in Nigeria.

Eze and Ogiji (2016) examined the implications of deficit financing on economic stability in Nigeria within the period of 1970 and 2013. Multiple regressions were used for analysis. Results showed external source, non-banking public source and exchange rate exerted significant and positive implications on economic stability proxy for GDP, while ways and means source, banking system source of deficit financing and interest rate had negative implications on economic stability in Nigeria.

Hussain and Haque (2017) studied fiscal deficit and its impact on economic growth in Bangladesh using annualized times series data obtained from Bangladesh Bureau of Statistics (BBS) and World Bank. Vector error correction (VEC) model estimated the variables. While VEC model for BBS data showed a positive and significant effect of fiscal deficit on GDP growth rate, VEC model for World Bank data indicated a negative but significant effect of fiscal deficit on GDP growth rate.

Akpan, Aniefiok, Eduno & Edet (2018) examined the formal-informal linkages in the provision of finances for investment into the real sector. The study made use of probit econometrics techniques to analyze the effect of both the formal and informal sector financing on the real sector. The study concluded that there is a positive impact of both the formal and informal sector financing on the growth of the real sector.

Okah, et al (2019) examined the effect of deficit financing on economic growth of Nigeria from 1987 to 2017. Using Vector Autoregressive estimates, the finding revealed that deficit financing has positive but insignificant effect on Nigerian economic growth. Therefore, to achieve efficient influence of budget deficit, the study recommended that government should strive to diversify its revenue base and also demonstrate a high level of transparency in both its monetary and fiscal operations among others.

Awolaja and Esefo (2020) studied the relationship between budget deficit and economic growth in 20 sub-Saharan Africa countries from 1991 to 2018. Pooled Mean Group (PMG) estimated the variables. Results revealed budget deficit related negatively and significantly with economic growth in the long-run, while budget deficit related positively and significantly with economic growth in the short-run.

Nwanna and Umeh (2019) assessed the effect of deficit finance on Nigeria economic growth in Nigeria covering the period 1981 to 2016 using ordinary least-square regression technique. Findings showed deficit financing via external debt had a negative and significant effect on economic growth. However, domestic debt had a positive and significant effect on economic growth.

Ali, Mandara and Ibrahim (2018) assessed the impact of deficit financing on economic growth in Nigeria for the period (1981 to 2016) using autoregressive distributed lag (ARDL) for variable estimation. Finding proved deficit financing significantly influenced output growth. Osuala and Ebieri (2014) empirically analyzed the impact of fiscal policy on economic growth in Nigeria for the period (1980-2012) using Ordinary Least Square (OLS) estimation technique. It was discovered specific fiscal policy variables that have significant and positive impact on economic growth in Nigeria government recurrent and capital expenditure.

Antwi, Zhaoi and Atta Mills (2013) evaluated budget deficit sustainability of Ghana between 1960 and 2010 using the OLS estimation technique. The result showed that both expenditure and revenue of Ghana have temporal precedence over each other.

Ezeabasili, Mojekwu and Herbert (2012) examined the relationship between fiscal deficit and inflation in Nigeria for the period (1975-2010) using Ordinary Least Square (OLS) estimation technique. The result reveals a positive but insignificant relationship between inflation and fiscal deficit in Nigeria.

Monogbe, Dornubari and Emah (2015) empirically investigated the effect of deficit financing on the Nigerian economic performance for the period (1981 – 2014). The Econometric analysis carried out were statistical test, descriptive statistic, OLS, series of diagnostics test, granger causality test, ECM, finally, impulse Response. Findings reveal that deficit financing through borrowing from foreign country has a contagious implicating effect but significant association to economic performance in the Nigeria context. This is evident by the result of the F statistic of the granger causality test and the ECM which established the fact that external debt does not cause economic growth. However, the result of the OLS reveals that increase in total money supply will influence economic growth; this is to the tune of 1% increase in total money supply to the economy will lead to about 18.4% increase the real gross domestic product all thing been equal. This will in turn reduce interest rate and trigger investments opportunities.

Onuorah and Ogbonna (2013) investigated the effect of deficit financing on Nigerian economic growth for the period (1970-2010) using the Ordinary Least Square (OLS) estimation technique. Their findings revealed that deficit financing is statistically significant and positively related to economic growth

2.3.1 Evaluation of Related Literature

Having reviewed numerous works on the effect of fiscal deficit financing on economic growth and having explored the different estimation techniques employed by different scholars in their works, it is worthy of note that there still exist a knowledge gap despite divergent methodologies and results there from.

Notwithstanding these various approaches that have been adopted by various researchers in order to add value to the existing studies, this study will not only extend its scope beyond those of earlier studies by modifying the available models but will also fill knowledge gap by extending the period captured to 2020 i.e. the most recent data available.

3.1 Research Design

The econometric technique of analysis is employed in this study. Particularly, the Ordinary Least Square (OLS) method is used for estimation of the equation. Ordinary Least Square (OLS) method is preferred because it has the Best, Linear, and Unbiased Estimator (BLUE). The study employs an econometric model to achieve the empirical results. The researcher used E-views 10 software package to run the Ordinary Least Square (OLS) regression. The OLS (Ordinary Least Square) regression technique is employed to examine the relationship between fiscal deficit financing and economic growth using time series data. It is also appropriate for this study in that it has some statistical properties that make it one of the most powerful and popular methods of regression analysis.

3.2. Source of Data Collection

Data used in this research are secondary data, and were gathered together from the reports and bulletin of Central Bank of Nigeria (CBN) 2020, National Bureau of Statistics (NBS), International Monetary Fund, Federal Ministry of Finance, OECD National Accounts, World Bank, and World Development Indicators (WDI) for various years for the period 1981-2020.

3.3 Model Specification

The model was formulated to reflect the hypothesis of the study. In the model, Real Gross Domestic Product (**RGDP**) was used to represent the dependent variable while External Source of Deficit Financing (**DFE**), Non-Banking Sources of Deficit Financing (**DFN**), Banking Sources of Deficit Financing (**DFB**) and Other Sources of Deficit Financing (**DFO**) were used to represent the independent variables. The primary model to determine the impact of fiscal deficit financing on economic growth in Nigeria is specified below:

$$\text{RGDP} = f(\text{K}, \text{LF}, \text{ExR}, \text{ToP}, \text{DFE}, \text{DFN}, \text{DFB}, \text{DFO}) \text{----- (1)}$$

Equation (3.1) states that Real Gross Domestic Product (**RGDP**) is a function of Gross Capital Formation (**K**), Labour Force (**LF**), Exchange Rate (**ExR**), Trade Openness (**ToP**), External Deficit Financing (**DFE**), Non-Banking Deficit Financing (**DFN**), Banking Deficit Financing (**DFB**) and Other Sources of Deficit Financing (**DFO**). When equation (1) is expressed in a linear equation form with error term μ incorporated into it, it becomes;

$$\text{RGDP} = \beta_0 + \beta_1\text{K} + \beta_2\text{LF} + \beta_3\text{ExR} + \beta_4\text{ToP} + \beta_5\text{DFE} + \beta_6\text{DFN} + \beta_7\text{DFB} + \beta_8\text{DFO} + \mu \text{..... (2)}$$

Where;

RGDP = Real Gross Domestic Product which serves as a proxy of economic growth.

DFE = External Deficit Financing

DFN = Non-Banking Sector Deficit Financing

DFB = Banking Sector Deficit Financing

DFO = Deficit Financing from Other Sources

ExR = Exchange Rate

LF = Labour Force

K = Gross Capital Formation

ToP = Trade Openness

β_0 = Constant Term

μ = Error term. It takes care of all other factors not accounted for in the regression model.

$\beta_1, \beta_2, \beta_3, \beta_4, \beta_5, \beta_6, \beta_7$ and β_8 are parameters for estimation. They are measures of marginal effect of the explanatory variables on the dependent variable.

Economic A Priori Expectation

Regarding the theoretical values of the parameters of the research model, a positive relationship is expected to exist between the Real Gross Domestic Product (**RGDP**) and External Deficit Financing (**DFE**), Labour Force (**LF**), Gross Capital Formation (**K**), Trade Openness (**ToP**), while the Banking Deficit Financing (**DFB**), Non-Banking Deficit Financing (**DFN**), Deficit Financing from Other Sources (**DFO**) and Exchange Rate (**ExR**) exhibits a negative relationship with Real Gross Domestic Product (**RGDP**)

Symbolically, the theoretical expectations about the signs of the coefficient of the parameters are as follows: $\beta_1 > 0, \beta_2 > 0, \beta_3 < 0, \beta_4 < 0, \beta_5 < 0, \beta_6 > 0, \beta_7 > 0$ and $\beta_8 > 0$.

3.4 Variables in the model

3.4.1 Dependent variable: The dependent variable is Real Gross Domestic product (**GDP**) which serves as proxy for economic growth. It refers to a macroeconomic measure of the value of economic output.

3.4.2 Independent Variables: The independent variables in the model are External Sector Deficit Financing (**DFE**), Non-Banking Sector Deficit Financing (**DFN**), Banking Sector Deficit Financing (**DFB**), and Deficit Financing from Other Sectors (**DFO**).

Control Variables: The control variables include Exchange Rate (**ExR**), Labour Force (**L**), Gross Capital Formation (**K**), and Trade Openness (**ToP**). These variables are explained as follows;

External Sector Deficit Financing: This refers to borrowing from outside the country from international financial institutions and governments of other countries.

Non-Banking Sector Deficit Financing: This refers to borrowing from the public through the issuance of debt securities like treasury bills, bonds etc

Banking Sector Deficit Financing: This refers to government borrowing from the domestic commercial banks and the local Central Bank.

Deficit Financing from Other Sources: This refers to borrowings other than external borrowings, non-banking public borrowings and banking borrowings within the domestic sector.

Exchange Rate: An exchange rate is the value of one nation's currency. Exchange rate can be either fixed or floating. Fixed exchange rates are decided by central banks of a country whereas floating exchange rate is decided by the mechanism of market demand and supply. It is the price of one currency in terms of another.

Labour Force: Labour force comprises of all persons who fulfill the requirement for inclusion among the employed or the unemployed. The employed are defined as those who work for pay or profit to at least one hour a week or who have job but are temporarily not at work due to illness, leave or industrial action. The unemployed are defined as people without work but actively seeking employment and currently to start work.

Gross Capital Formation: Capital formation is a term used to describe the net capital accumulation during an accounting period for a particular country. It refers to additions of capital goods such as equipment, tools, transportation asset and electricity. Countries need capital goods to replace the older ones that are used to produce goods and services. If a country cannot replace capital goods as they reach the end of their useful lives, production declines.

Trade Openness: This is the sum of imports and exports normalized by **GDP**. Trade openness is another determinant that is generally accepted to play a role in the determination of currency crises.

3.5 Method of Analysis

First, we present a descriptive statistics of the variables used in the study. Stationarity test involves testing for unit root which is carried out to determine the stationarity of variables and the order of integration of the variables. "Variables are said to be stationary when the mean, variance and covariance are constant over a given period" Gujarati (2003). The stationarity test will be carried out using Augmented Dickey Fuller test statistic before proceeding to carry out co-integration test. To satisfy some of these econometrics criteria we used the Jarque-Bera test for normality test. The estimation procedure here would be that of OLS. The emphasis would be to note whether the variables are well behaved or not. We aim to ascertain their level of statistical significant or otherwise. There might be some external factors that influence the value of dependent variable but are not captured in the model. They are captured in the error term. ECM tells us at what rate the error will be corrected annually. The coefficient of ECM must be negative.

4.0 PRESENTATION AND ANALYSIS

4.0. Introduction

This chapter presents all the results of the empirical analysis with their interpretations. Data used for this analysis are time series that cover the period 1981-2020. The empirical results were generated using E-views 9.5 econometric software.

4.2. Data Analysis

4.1. Table 2: Descriptive Statistics

	RGDP	DFE	DFN	DFB	DFO	ExR	LF	K	ToP
Mean	35574.0	65.0967	145.732	155.2908	347.466	100.872	4022321	6772.59	0.29625
Median	24477.9	0.77000	16.2350	32.35500	16.5600	107.024	3846072	2439.14	0.31500
Maximum	71387.8	1240.40	2057.54	1337.550	4001.00	358.810	6322672	44187.0	0.55000
Minimum	13779.2	-11.8600	-517.210	-153.1400	-103.300	0.61002	2302687	87.1448	0.08000
Std. Dev.	20743.1	254.949	380.184	289.1530	834.875	100.759	1179437	9720.91	0.11328
Skewness	0.60836	4.13637	3.43104	2.368412	2.95459	0.88531	0.403995	2.27078	-0.18148
Kurtosis	1.76465	18.3120	17.6122	8.869458	11.5099	2.98752	1.994751	8.32567	2.42464
Jarque-Bera	5.01088	504.828	434.342	94.81341	178.895	5.22549	2.772290	81.6476	0.77130
Probability	0.08163	0.00000	0.00000	0.000000	0.00000	0.07333	0.250037	0.00000	0.68000
Sum	142296	2603.87	5829.31	6211.630	13898.6	4034.90	1.61E+09	270903	11.8500
Sum Sq. Dev.	1.68E+10	2534970.	5637077.	3260768.	27183642	395947.	5.43E+15	3.69E+09	0.50053
Observations	40	40	40	40	40	40	40	40	40

Source: Computed by Author using Eviews 10

From the descriptive statistics result shown in table 2, the average Real Gross Domestic Product is 35,574.01 billion, minimum value of 13,779.26 billion in 1983 and maximum value of 71,387.83 billion in 2020 for the period under review. This maximum External Deficit Financing was recorded in 2019 with the value of 1,240.400. However, it has record minimum value many in many years. Non-Banking Deficit Financing recorded its highest value of 2,057.543 in 2020 and an average value of 145.7328. Banking Deficit Financing recorded its maximum value of 1,337.550 in 2020 and an average value of 155.2908.

4.2.2 Summary of Unit Root Test

Table 4.3: Unit Root Results

Variables	ADF Statistics	Macknnon Critical Values at 5%	Order Of Integration
LRGDP	-3.289083	-2.941145	I(1)
LDFE	-7.085957	-3.081002	I(1)
LDFN	-9.441571	-3.004861	I(1)
LDFB	5.721910	-2.998064	I(1)
LDFO	-5.572589	-3.052169	I(1)
LExR	-5.299593	-2.941145	I(1)
LLF	-10.14743	-2.941145	I(1)
LK	-3.869495	-2.941145	I(1)
TOP	-8.176391	-2.941145	I(1)

Source: Author's computation using Eviews

The table above shows the summary of unit root test results. The result shows that Real Gross Domestic Product (RGDP), External Deficit Financing (DFE), Non-Banking Deficit Financing (DFN), Banking Deficit Financing (DFB), Deficit Financing from Other Sources (DFO), Exchange Rate (ExR), Labour Force (LF), Gross Fixed Capital Formation (K) and Trade Openness (ToP) were all stationary at 1st difference I(1). Therefore, the variables are fit to be used for the analytical purpose for which they were gathered using co-integration technique.

4.2.3 Summary of Johansen Co-integration test for the series

Table 4.4: Co-integration Results

Hypothesized No. of CE(s)	Eigenvalue	Trace Statistic	0.05	Prob.**
None *	0.935839	370.1893	197.3709	0.0000
At most 1 *	0.919415	265.8276	159.5297	0.0000
At most 2 *	0.747354	170.1268	125.6154	0.0000
At most 3 *	0.611378	117.8476	95.75366	0.0007
At most 4 *	0.541190	81.93200	69.81889	0.0040
At most 5 *	0.493242	52.32546	47.85613	0.0179
At most 6	0.345322	26.49605	29.79707	0.1146
At most 7	0.219759	10.39881	15.49471	0.2513
At most 8	0.025177	0.968993	3.841466	0.3249

Source: Authors Computation Using Eviews 10

Under the Johansen Co-integration test, Co-integration is said to exist if the values of computed Eigen values are significantly different from zero or if the trace statistics is greater than the critical value at 5 percent level of significance. The results of the co-integration in table (3) above indicated 6 co-integrating equations.

4.2.4 Summary of Ordinary Least Squares

Table 4.5: Estimated Results

Variables	Coefficient	Standard Error	T-statistics	Prob. Value
C	-38529.81	5857.268	-6.578119	0.0000
DFE	0.786007	3.283821	0.239357	0.8124
DFN	2.244747	4.934845	0.454877	0.6524
DFB	6.740797	3.469277	1.942998	0.0611
DFO	-0.868995	1.772439	-0.490282	0.6274
ExR	-68.05580	26.60670	-2.557845	0.0156
LF	0.002130	0.000225	9.486706	0.0000
K	0.148162	0.364547	0.406427	0.6872
ToP	-23101.91	6110.126	-3.780922	0.0007
R-squared = 0.978452				
Adjusted R-squared = 0.972892				
F-statistics = 175.9595				
Prob.(F-statistics) = 0.000000				
Durbin Watson = 0.878398				

The table above shows the Ordinary Least Squares Method result obtained when Real Gross Domestic Product (RGDP) is regressed against External Deficit Financing (DFE), Non-Banking Deficit Financing (DFN), Banking Deficit Financing (DFB), Deficit Financing from Other Sources (DFO), Exchange Rate (ExR), Labour Force (LF), Gross Fixed Capital Formation (K) and Trade Openness (ToP).

4.3 Evaluation of Results

The regression result above will be analysed based on economic (apriori expectation), statistical and econometric criteria.

4.3.1 Evaluation of Result Based on Economic (A'priori Expectation) Criterion

Constant: The coefficient of the constant term (-38529.81) is negative implying that when the independent variables employed are kept constant Real Gross Domestic Product (RGDP) will decrease at 38529.81 units.

External Deficit Financing (DFE): The coefficient of external source deficit financing is 0.786007. This implies that an increase in External Deficit Financing will bring about a 0.8 percent increase in economic growth, an indication that External Deficit Financing has a positive relationship with economic growth represented by Real Gross Domestic Product (RGDP) for the period under review.

Non-Banking Deficit Financing (DFN): The coefficient of Non-Banking Deficit Financing is 2.244747. This implies that an increase in non-banking deficit financing will bring about a 2.24 percent increase in economic growth, an indication that non-banking deficit financing has a positive relationship with economic growth represented by Real Gross Domestic Product (RGDP) for the period under review.

Banking Deficit Financing (DFB): The coefficient of banking deficit financing is 6.740797. This implies that an increase in Banking Deficit Financing will bring about a 6.7 percent increase in economic growth, an indication that Banking Deficit Financing has a positive relationship with economic growth represented by Real Gross Domestic Product (RGDP) for the period under review.

Deficit Financing from Other Sources (DFO): The coefficient of deficit financing is -0.868995. This implies that an increase in Deficit Financing from Other Sources will bring about a 0.9 percent decrease in economic growth, an indication that Deficit Financing from Other Sources has a negative relationship with economic growth represented by Real Gross Domestic Product (RGDP) for the period under review.

Exchange Rate (EXR): The coefficient of exchange rate is -68.05580. This implies that an increase in Exchange Rate will bring about a 68 percent decrease in economic growth, an indication that exchange rate has a negative relationship with economic growth represented by Real Gross Domestic Product (RGDP) for the period under review.

Labour Force (LF): The coefficient of labour force is 0.002130. This implies that an increase in labour force will bring about a 0.002 percent increase in economic growth, an indication that labour force has a positive relationship with economic growth represented by Real Gross Domestic Product (RGDP) for the period under review.

Gross Fixed Capital Formation (K): The coefficient of Gross Fixed Capital Formation is 0.148162. This implies that an increase in Labour Force will bring about a 0.15 percent increase in economic growth, an indication that Gross Fixed Capital Formation has a positive relationship with economic growth represented by Real Gross Domestic Product (RGDP) for the period under review.

Trade Openness (ToP): The coefficient of trade openness is -23101.91. This implies that an increase in trade openness will bring about a 23101.9 unit increase in economic growth, an indication that trade openness has a negative relationship with economic growth represented by Real Gross Domestic Product (RGDP) for the period under review.

4.3.2 Evaluation of Results Based on Statistical Criteria (1st Order Test)
Coefficient of Determination

The coefficient of determination (R^2) shows the explanatory power of the model. The R^2 is of the value 0.978452; this implies that about 98% of the total variation in Real Gross Domestic Product is explained by variation in External Deficit Financing (DFE), Non-Banking Deficit Financing (DFN), Banking Deficit Financing (DFB), Deficit Financing from Other Sources (DFO), Exchange Rate (EXR), Labour Force (LF), Gross Fixed Capital Formation (GFCF) and Trade Openness (ToP). Thus, the data gives the model a good fit. The remaining 2% can be accounted for by the error term (i.e. other explanatory variables not captured in the model).

F-statistics

The F-statistics tests the overall significance of the model since the $F_{cal} (175.9595) > F_{tab} (2.30)$ at 5% level of significant. The significance of the overall model means that the expectancy variables have joint impact on the dependent variables. This also implies that there is high degree of linear relationship between the dependent and the independent variables.

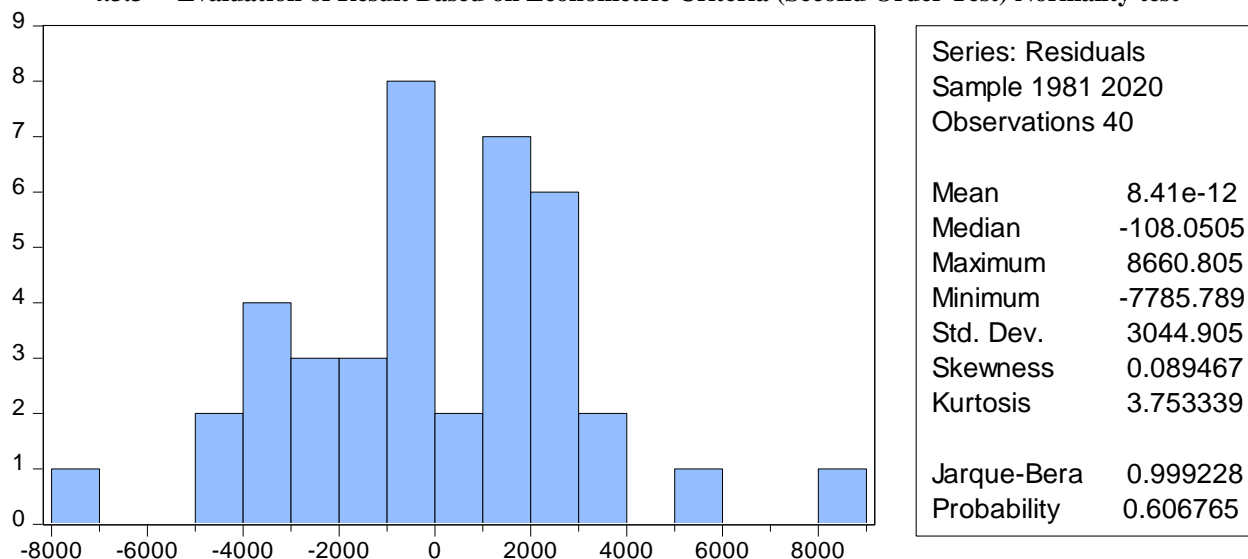
Table 4.6: Summary of the Student T-Test

Variables	T – calculated	T – tabulated	Decision rule	Conclusion
C	-6.578119	±2.042	Reject H_0	Conform
DFE	0.239357	±2.042	Reject H_0	Not conform
DFN	0.454877	±2.042	Accept H_0	Not conform
DFB	1.942998	±2.042	Accept H_0	Not conform
DFO	-0.490282	±2.042	Accept H_0	Not conform
ExR	-2.557845	±2.042	Reject H_0	Conform
LF	9.486706	±2.042	Reject H_0	Conform
K	0.406427	±2.042	Accept H_0	Not conform
ToP	-3.780922	±2.042	Reject H_0	Conform

Source: Researcher’s Computation Using E-views 10

From the above illustration, the constant term, Exchange Rate (ExR), Labour Force (LF), and Trade Openness (ToP) are statistically Significant for the period under review since their t-statistics in absolute terms is greater than the table t-distribution. On the other hand, External Deficit Financing (DFE), Non-Banking Deficit Financing (DFN), Banking Deficit Financing (DFB), Deficit Financing from Other Sources (DFO), and Gross Fixed Capital Formation (K) are not statistically significant since their t-statistics in absolute terms are less than the table t-tabulated for the period under review.

4.3.3 Evaluation of Result Based on Econometric Criteria (Second Order Test) Normality test



The chart above shows the test of normality for the model employed in this work. Jarque-Bera has over time proven to be a good statistic for the measurement of normality, though it is used on data with large sample size. It can be concluded that our model is not normally distributed given that the P-value (0.606755) is greater than 0.05

Heteroscedasticity Test: Breusch-Pagan-Godfrey**Table 4.7: Heteroscedasticity Result**

F-statistic	0.455458	Prob. F(8,31)	0.8775
Obs*R-squared	4.207019	Prob. Chi-Square(8)	0.8380
Scaled explained SS	3.478625	Prob. Chi-Square(8)	0.9008

Because the probability value associated with the Chi-Squares is significantly greater than 0.05 levels, we accept the null hypothesis that there is no heteroscedasticity in the model.

Durbin-Watson test for Autocorrelation

The Durbin-Watson statistics is less than 2 i.e. $DW < 2$, ($0.878398 < 2$) we reject H_0 which say no autocorrelation and accept a positive or strong autocorrelation. This signifies that there exists a correlation between the error terms for the period under review. Hence, the result of the model can be applied for policy formation in the Nigeria economy.

Estimated Short Run Relationship - Error Correction Model (ECM)

Having satisfied the condition for long-run equilibrium relationship as was revealed Johansen co-integration, the next step is to construct an Error Correction Model (ECM) so as to estimate the short-run relationship that exists among the specified variables and equally the speed of adjustment having lost information about long run relationship through differencing. The ECM result is presented in table 4.8 below:

Table 4.8: Short Run Impacts

Variables	Coefficient	Standard Error	T-statistics	Prob. Value
D(DFE(-1))	-0.404016	2.156155	-0.187378	0.8527
D(DFN(-1))	2.275664	2.264662	1.004858	0.3233
D(DFB(-1))	2.344417	1.702591	1.376971	0.1791
D(DFO(-1))	-1.571991	1.295573	-1.213356	0.2348
D(ExR(-1))	-9.680101	21.12695	-0.458187	0.6502
D(LF(-1))	0.001336	0.000281	4.754067	0.0001
D(K(-1))	0.160332	0.195126	0.821684	0.4180
D(ToP(-1))	-3187.600	3031.409	-1.051524	0.3017
ECM(-1)	-0.194152	0.103143	-1.882354	0.0699

Source: Author's computation using Eviews 10

Here, we are only interested in the coefficient of the short run estimation. The estimated error correction coefficient of -0.194152 (0.0699) has the correct sign, and imply a fairly high speed of adjustment to equilibrium after a shock. Over 194% of disequilibria from the previous year's shock converge back to the long run equilibrium in the current year.

Causality Test**Table 4.9: Summary of Granger Causality Test**

Null Hypothesis:	Obs	F-Statistic	Prob.
DFE does not Granger Cause RGDP	38	2.16160	0.1312
RGDP does not Granger Cause DFE		19.2377	3.E-06
DFN does not Granger Cause RGDP	38	2.18021	0.1290
RGDP does not Granger Cause DFN		0.89880	0.4168
DFB does not Granger Cause RGDP	38	0.91740	0.4095
RGDP does not Granger Cause DFB		1.71805	0.1951
DFO does not Granger Cause RGDP	38	2.03980	0.1461
RGDP does not Granger Cause DFO		3.73242	0.0346

Source: Authors Computation Using E-Views

The granger causality result showed that there is no causal relationship between Real Gross Domestic Product (RGDP) and External Deficit Financing (DFE), between Real Gross Domestic Product (RGDP) and Non-Banking Deficit Financing (DFN), between Real Gross Domestic Product (RGDP) and Banking Deficit Financing (DFB). Only Real Gross Domestic Product and Other Sources of Deficit Financing (DFO) showed a unidirectional relationship.

Diagnostic Tests

For inference to be made from our model, it ought to be diagnosed for possible errors or deficiency. A deficiency in the model could lead to a spurious result which will affect the result arrived at after the regression analysis and definitely have implication for policy that will be drawn afterward.

Test for autocorrelation

To test for autocorrelation, we use the Durbin Watson result for the short run estimation.

Where dl = Lower Limit

du = Upper Limit

dw = Durbin – Watson statistic at 5% level of significance

N = 40 (number of observation)

$K = 7$ (number of explanatory variables)

Reading from Durbin – Watson table, at 0.05 level of significant

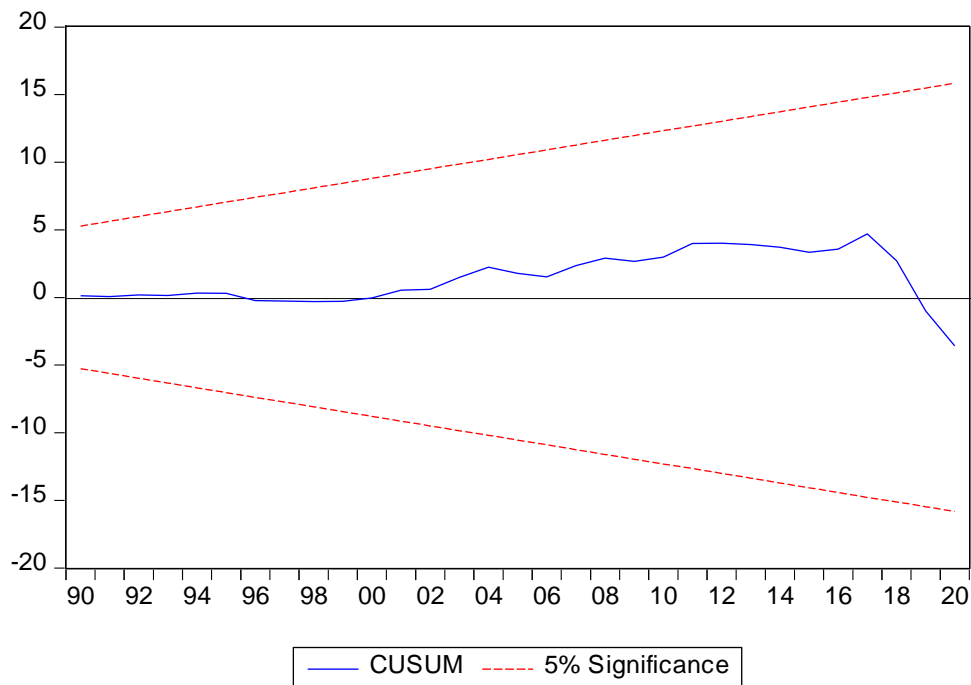
$DL = 0.930$

$DU = 1.729$

$DW = 0.878398$

Compatibility: Since $dw < dl$ ($0.878398 < 1.194971 \leq 0.930$), we conclude that there is autocorrelation in the model.

Stability test:



The figure above shows the CUSUM test for stability. It is expected that on both occasion, the blue line should fall in between the two dotted red V-masked lines and in between the two upward moving parallel lines. As displayed on the chart above, we can therefore conclude that our model is stable within the time under consideration.

4.4 Discussion of Major Findings

In the attempt to examine the impact of fiscal deficit financing on economic growth in Nigeria, from the results above, it can be deduced that there is no significant relationship between the sources of fiscal deficit financing and economic growth. This is in line with the study of Nwaeke and korgbeelo (2016) in their study using ordinary least square estimation procedure, to provide empirical evidence on the relationship between deficit financing and selected macroeconomic variables in Nigeria. They found that budget deficit financed from external loans is negatively but insignificantly related to economic growth. Also, Akinmulegun (2014) studied deficit financing and its effect on economic growth in Nigeria employing the econometric technique of Vector Auto Regression (VAR) Model. It was discovered that deficit financing has not contributed significantly to economic growth in Nigeria. 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.

5.0 Conclusion

It is obvious that fiscal deficit financing has not significantly impacted on economic growth in Nigeria. Despite the fact that actual revenues realized are often above the budgeted estimates, huge budget deficits have been recorded over the years (Anyanwu, 1997). This lack of fiscal discipline which has resulted in ever increasing fiscal deficits has been blamed for some of the macroeconomic problems that beset the country. They include but not limited to high and rising inflation rates, high and rising unemployment, balance of payments problems, over indebtedness and debt crisis, poor investment performance, etc (Onwiodiukit, 1999).

5.1. Recommendations

Since there is no significant relationship between fiscal deficit financing and economic growth from the result, the following are recommended:

- i. The government should diversify and broaden its revenue base so as to reduce the vulnerability of the economy to negative shocks from oil revenue. This will ensure greater revenue to take care of government's proposed expenditure than to resort to deficit budgets to bridge the gap between proposed expenditure and actual revenue. Hence the negative consequences of deficit financing would be reduced.

- ii. When it is absolutely necessary to budget for a deficit, the government should try as much as possible to reduce the proportion of the overall deficits financed from external borrowing. This will reduce the amount of foreign debt and its negative consequences.
- iii. The government should equally reduce the proportion of fiscal deficits financed from the domestic deposit money banks to reduce the crowding-out of private sector investments. Rather, the government should concentrate on other domestic sources like non-bank public, individual investors in the bond market, privatization proceeds, excess crude money, etc.
- iv. We also recommend that the government should reduce its recurrent expenditure and spend the deficit on economically viable and productive ventures that will boost economic activities and provide jobs for the teeming Nigerian labour force. This will help to reduce unemployment.
- v. There should be probity, transparency, accountability and fiscal discipline on the part of government officials charged with the responsibility of executing government policies and programmes. This will ensure that money earmarked for development projects are judiciously spent.

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