# Impact of Budgetary Deficit on the Nigerian Economic Growth

**AJIBOYE, David Oluwaseun**

Department of Accounting,
Bingham University,
Karu, Nasarawa State
E – Mail: seunjiboye@yahoo.com, Phone No: +234 8175549541

## Abstract

*Given the importance of budgetary provisions to developing economies such as Nigeria, the twin subject of budgetary provisions and economic growth has remained a focal point for discussion in recent times. By means of an exploratory research design, this study examines the Impact of Budgetary Deficit on the Nigerian Economic Growth. Findings from the study reveal that, there is significant positive correlation between deficit financing and economic growth in Nigeria. The study therefore concludes that deficit financing has positive impact on economic performance of Nigeria, as it clearly shows that financing activities affects economic growth positively. Furthermore, inflation has been established as monetary phenomenon in Nigerian economies; and also for budget deficit to be effective, some fundamental changes in the productive base of the economy need be made. Based on the findings of the study, it is recommended that government should pursue policies capable of reducing in the size of informal sector which has imposed greater constraint to revenue collection and generation. Also, interest rate should be further reduced to enable availability and accessibility of funds for private sector investment which will contribute significantly to economic growth of the Nigeria. Furthermore, exchange rate depreciation should be discouraged in the economy as it has negative implication to the economic growth.*

Keywords: Budget, Budgetary Deficit, Nigerian Economy, Economic Growth

## INTRODUCTION

The importance of efficient and effective public expenditure of management cannot be over-emphasized. Budgeting is an important part of the Government fiscal management. Omosebi (1995), commenting the growth and development of budgets explained that the process of budgeting in Britain was to enable the king in around 1215 in Britain to levy tax and to obtain the approval of the legislature. This is because the British government has to approve the welfare facilities for the generality of the people. In order to perform this function, tax has to be .collected. Legislative controls of taxes continue to date as all budgets proposals have to be approved by the parliament. In 1921 in the United State, the Budget and Accounting Act was passed. The federal and the State Government apply the budget as instrument of expenditure control to manage public expenditures. In the US, the planning programming Budgeting system (PPBS) was adopted. Budgeting later became a tool of management and instrument of economic policy. Various types of budgeting systems were used at different times. The control budgeting system emphasizes the control of the budget and established limitations and conditions designed to secure compliance with the spending restrictions imposed by the government. The line item budgeting system, describes every expenditure item. The performance budgeting b system stresses output based on the efficient use of resources. The program budgeting system relates to activities which are directed towards the common objectives and goals. The planning, programming, budgeting system (PPBS) emphasizes planning. The zero-based budgeting system (ZBB) required the justification of each item in the entire budget. Recently introduced is the input-output model to spectral allocation budgeting system. This is an economic model that presents the flow of sectorial allocation against the performance of those sectors over a given period of time. The allocation made constitutes the output, while performance of the various sectors in terms of goods and services produced/delivered constitutes the output.

The Budget Officer of Nigerian Federation was established to provide budget functions, implementation of budget and fiscal policies of the Federal Government of Nigeria. It is structured into six departments which are: revenue, expenditure, budget monitoring and evaluation, fiscal policy, administration/supplies and finance and accounts. The office is to maintain aggregate fiscal discipline, allocate resources in accordance with government priorities and promote the efficient delivery of services. Budget preparation and formulation entail revenue estimation using current information on oil production and prices. It also involves estimation of non-oil receipts and developing of a macroeconomic framework. Section 81 of the constitution of the Federal Republic of Nigeria 1999 states that;

> The president shall cause to be prepare and laid before each House Of the National Assembly at any time in each financial year estimates of the revenues And expenditure of the Federation for the next following financial year…a supplementary Estimate showing the sums required shall be laid before each House of the National Assembly and head of any such expenditure shall be included in the supplementary Appropriation Bill.

Budget data are reported on a gross basis. Such data are classified according to revenue, expenditure and financing. The expenditure are classified according to the economic, functional administrative categories. There guidelines and procedures on budget preparation. First is the call circular. It gives the overview of the national economy to serve to the estimated available resources and essential priority areas to be given attention in making estimates for current and capital expenditures. The budget must be approved by each House of the National Assembly. The annual review of the performance of the current years budget is done around June of every year with a view to assessing the shortcomings of the past and to note the areas that need improvement. It also revels the economic, social and political factors that affect the budget. There is usually a meeting of the finance minister with the private sector, Manufacturers Association of Nigeria (MAN) and other interest groups to obtain their views on the budget. Nigeria is endowed with enormous resources. There is no state in the Federation that does not have enough resources if well managed. In early 1970s there was no oil boom. Oil was discovered in commercial quantity in Nigeria in 1958.Prior to that 1958, agricultural products were exported from Nigeria as the country was largely an agricultural nation. From the Western Region, cocoa and palm produce were exported. Midwestern Region had rubber and coffee. Eastern Region of Nigeria had palm produce and Northern Nigeria had groundnut and cotton. Tin was mined in Jos and coal in Eungu. This provided a lot of foreign exchange and therefore Nigeria did not need to borrow, and exportation of agricultural produce were jettisoned immediately oil was discovered in large quantity in Nigeria. The oil made the Nigerians to develop an insatiable appetite for imported items. Products imported include food items such as rice, flour, edible oil, sardine, motor cars and industrial machines. As the country expenditure exceeded income, it resulted into deficit Budgeting.

Available evidence shows that over the years Nigeria budget deficits trend has been on the increase. It recorded forty years of deficits since 1980, deficits are meant to accelerate economic activities during depressions through induced variables or aggregates. Despite the fact that Nigerian economy has been operating deficits for these periods and also operated in a situation of less than full employment, it has been in distress which runs contrary to the essence of deficits. There is an obvious reduction in the standard of living of the citizens; there is a decline in growth of the economy; poverty is in the land; there is persistent unfavorable balance of payment, increased public debt, continuous depletion of foreign reserve, little or no savings, and decline in exports, increased inflationary pressure and continuous dependence on external economies. Budget deficit's impact on these macroeconomic variables has been unfavorable. One would then ask if budget deficit no longer stimulate economic growth. Do we then accept the Keynesian economists that budget deficit crowds-in private investment through its impact on macroeconomic variable or do we accept the neoclassical economists that budget deficit crowds-out private investment through its impact on interest rate and other variables or do we accept the Ricardian economists that budgets does not have positive or negative impact on aggregate demand. Since there is no consensus in the literature yet about the net impact of deficit financing in developing economies, we need to undertake further studies by extending the period to 2016. The main objective of this study therefore is to examine the impact of the deficit budgeting on the Nigeria economy and the basic hypothesis underlying this study is stated thus;

**$H_{01}$:** There is no significant relationship between Deficit financing and economic growth in Nigeria

## LITERATURE REVIEW

### Conceptual Framework

#### Budget

Olatunde (2003) quoted the definition of budget as defined by the chartered institute accountants (CIMA) official terminology 1995 as a financial quantitative statement, prepared and approved prior to a defined period of time, of a policy to be pursued during that period for the purpose of attaining a given objective. They may include income, expenditure and the employment of Capital. For satisfactory control, a budget5 requires regular review and modification to reflect rapidly changing conditions in the business environment. He referred to a budget as statement, expressed in financial terms of the desired performance of an organization in the pursuit of it objective in the short run (one year). It is an action plan for the immediate future, representing the operational and financial end of the corporate planning chain. As a building guide the builder in the construction process, so does a budget guide all those who have any responsibility for the fiscal operation. Aremo (2002) postulated that there as many definitions as there many writers on budget. He stated that a budget is a pan expressed in a quantitative and usually in monetary terms covering a specific period of time, usually a year. He also quoted Hadden (1938) that defines budget as a plan of action that is dynamic rather than static. Success will come to those whose plans were carefully prepare. Aremo (2000) further observed that budget is a process that has stages which include preparation, approval, execution, control and view. He quoted Singer (1982.) to remark about problems in constructing budgets stated that; in the budgetary process, it is generally acknowledged that behavioral factors can dominate technical consideration when it comes to agreeing and acting on a budget. Budgeting requires the exercise of judgment. It is a bargaining process in which corporate politics can loan large, and it is a powerful instrument for motivating or demotivating those responsible for conforming to its reference standards.

Ruuett and Truett (2000) define Federal budget as a financial plan of the federal government during a particular 12-month period, called a fiscal year. Aremo (2000:14) states that budgeting started in Great Britain in 1922. He therefore confirmed Griesemer (1983:4) stated that: If one accepts 1822 as the birth date of a for budget; budgeting as human enterprise is well under 200 years old". This assertion was proved incorrect as budget was proved to be earlier than 2000 years ago. Olatunde (2006) quotes the bible(king Jambs version) in the first interactive section of SEC 28, 2006 at the national institute at the national institute for policy strategic studies, Luke 14:28,29; For which of you, intending to build a tower not down first, and counted the cost, whether he have *sufficient* to finish it? Lest haply after he hath laid the foundation, and is not able to finish it, all that behold it begin to mock him". That implies that budget preparation is as old as the time of Jesus Christ. Thus, a budget can be viewed as a formal expression of management plans of action prepared in advance of the period to which it relates. It may be prepared for the business as a whole, department, faculty, college the university, the local, state and federal government. The process of preparing and agreeing on budgets are means of translating t5he overall objectives of the organization into detailed plan of action.

Public budgets describe in monetary terms what a particular government will do. It lists how much the government will realize during the financial year and how it will be expended. It relates task to be performed with the amount of resources necessary to accompany those task. Irene (2000) analyzed public budget as reflecting choices about what government will do or will not do. It reflect general public consensus about what kinds of services government should provide and what citizens are entitled to as members of a society. It examines whether government should provide services that the private sector could not provide, such as water, electricity, transportation and housing. Public budget reflects government priorities. The essence of budgeting is that it allocates scares resources and hence implies choice between potential object of expenditure. Budgeting implies priority balance and it requires some kind of decision-making process. Public budgeting is political. Premchand (1990) dealt extensively on the current problems in government financial management. Some of the problems are absence of expenditure priorities, inadequate review of programs, absence of budgetary guidance to spending agencies, poor preparatory work by the spending agencies and; absence of contingency plans. Other challenges are inadequate attention to operate and maintenance, of expenditures, public debt and government lending programs. Moreover other problems inadequate resource planning and poor government accounting and financial reporting

**Budget Deficit**

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 (2004) 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 (2005) 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).

**Economic Growth**

The concept of economic growth has series of definitions: Eleje and Emerole, (2010) see economic growth as a rise in the productive capacity of a country on a per capita basis. It involves the expansion of the economy through a simple widening process. It is the increase in the national output or GDP of the nation Hogendorn, (1992). Ajayi (1996) perceived economic growth as the increase overtime of country's output of goods and services. Schumpeter (1973), defines economic growth as gradual and steady change in the long-run which comes about by gradual increase in the rate of savings and population. Thus, economic growth is related to the quantitative and sustained increase in the countries per capita output or income accompanied by expansion in its labour force, consumption level, capital and volume of trade. However, for the purpose of this research, economic growth means an increase in country's Real Gross Domestic Product over a period of time usually one fiscal year. Economic growth is the increase in the market value of the goods and services produced by an economy over time. It is conventionally measured as the percent rate of increase in real gross domestic product, or real GDP. Of more importance is the growth of the ratio of GDP to population (GDP per capita), which is also called per capita income. An increase in growth caused by more efficient use of inputs is referred to as intensive growth. GDP growth caused only by increases in inputs such as capital, population or territory is called extensive growth (Schema, 2004).

In economics, "economic growth" or "economic growth theory" typically refers to growth of potential output, i.e., production at "full employment". As an area of study, economic growth is generally distinguished from development economics. The former is primarily the study of how countries can advance their economies. The latter is the study of the economic development process particularly in low-income countries. Growth is usually calculated in real terms i.e., inflation-adjusted terms to eliminate the distorting effect of inflation on the price of goods produced. Measurement of economic growth uses national income accounting. Since economic growth is measured as the annual percent change of gross domestic product (GDP), it has all the advantages and drawbacks of that measure (Schema, 2015).

**Empirical Review**

Khieu (2014) examined budget deficit, money growth and inflation: empirical evidence from Vietnam. The study empirically examines the nexus among budget deficit, money supply and inflation by using a monthly data set from January 1995 to December 2012 and a SVAR model with five endogenous variables, inflation, money growth, budget deficit growth, real GDP growth and interest rate. Since real GDP and budget deficit are unavailable on the monthly basis, he interpolated those series using Chow and Lin's (1971) annualized approach from their annual series. Overall, he discovered that money growth has positive effects on inflation while budget deficit growth has no impact on money growth and therefore inflation. In addition, budget deficit is autonomous from shocks to other variables. The estimation results also reveal that the State Bank of Vietnam implemented tightening monetary policy in response to positive shocks to inflation by reducing money growth but the response was relatively slow because it took three months for the monetary authority to fully react to such shocks. Finally, interest rate was not an effective instrument for fighting inflation but it was significantly and positively influenced by inflation. Bakare, Adesanya and Bolarinwa (2014) conducted a study on empirical investigation between budget deficit, inflation and money supply in Nigeria. The paper critically investigates the long term relationship between budget deficit, money supply and inflation in Nigeria between 1975 and 2012. The paper employed quantitative methodological framework and specifically draws on econometric technique to find the relationship between inflation rate, growth rate of money supply, growth of budget deficit/GDP and growth of external debt/GDP. Stationarity test conducted using Augmented Dickey-Fuller (ADF) reveals that the variables used are stationary at levels. The Johansen co-integration test suggests that there are at least three co-integrating vectors among these variables. The estimated coefficient of the ECM reveals that about 132% of the errors in the short run are corrected in the long run. The overall result between inflation rate and growth of money supply, growth of BD/GDP and growth of ED/GDP indicates that the specified model is statistically significant at 5% level. By implication, the model is of goodness of fit i.e. reliable for policy making. However, the paper recommends that the Nigerian government should demonstrate a high sense of transparency in its monetary and fiscal operations in order to curb high prevalence of money supply and external debt, money supply in order to reduce the incidence of inflation in Nigeria.

Ezeabasili, Tsegba and Wilson (2012) studied economic growth and fiscal deficits: empirical evidence from Nigeria. They pointed out that there has been considerable debate about the relationship between fiscal deficits and economic growth. Although macroeconomic theory postulates that fiscal deficits stimulate economic growth, empirical research has been less conclusive about this relationship. This paper examines this controversial relationship within the Nigerian context, using data over the period, 1970 — 2006. The study adopted a modeling technique that incorporates cointegration and structural analysis. The results indicate that (1) fiscal deficit affects economic growth negatively, with an adjustment lag in the system; (ii) a one percent increase in fiscal deficit is capable of diminishing economic growth by about 0.023 percent; and (iii) there is a strong negative association between government consumption expenditure and economic growth. Awogbemi, Adeyeye, Taiwo and Kola (2012) in their work examined the causes and effects of inflation in Nigeria between 1969 and 2009 and what could be done to ameliorate the negative effects on the economy. The time series variables properties on some selected variables were examined using Augmented Dickey Fuller (ADF) Unit root test and co-integration analysis. The result revealed that the explanatory variables (money supply, growth rates, gross domestic product growth rates and expenditure revenue ratio) are not spurious but exchange rate of dollar to naira was nonstationary. The study also revealed that the gross domestic product growth rate is counter inflationary as against inflationary factors. Odawara (2011) studied the relationship between government expenditure and economic performance. The first essay investigates a nonlinear relationship between government spending and macroeconomic performance by estimating a threshold model that relates real GDP growth to three measures of government spending: government consumption, government investment, and total government expenditure as share to GDP. Using quarterly data for five OECD countries from 1970 through 2008, Hansen’s (1996, 1999, and 2000) method is applied to test for the presence of threshold effects and to estimate the threshold values. The main findings suggest that there is strong evidence of a nonlinear relationship between government spending and macroeconomic performance for all three measures of government spending in five OECD countries. The results also indicate the importance of compositional effects when examining government spending. The impact on government investment on macroeconomic performance is quite different from that for government consumption. According to Omoke and Oruka (2010), who employed Pair Wise Grander causality Test in an attempt to offer evident on the causal long term relationship between budget deficit, growth and inflation in Nigeria, considering the broadest definition of money supply, money supple causes budget deficit which means that the level of money supply in the Nigerian economy will determine whether there has been or there will be budget deficits. Inflation and budget deficit revealed a bilateral or feedback causality proving that the changes that occur in inflation could be explain by its own lag and also the lag values of budget deficit and in the same vein, changes that occur in budget deficits are explained by its lagged values and the lagged values of inflation. The implication of their findings is that both budget deficit and inflation could be caused by money, supply meaning that they are both monetary phenomena and also, inflation is also caused and found to be dependent on the performance of the budget.

Iyoha (2000) investigated the impact of external debt on economic growth in sub-Saharan African countries using simulation approach. It was observed that external debt variables has significant impact on economic growth in sub-Saharan African countries and that debt stock reduction would have significantly increased investment and growth performance. The study concludes that mounting external debt depresses investment through both a disincentive effect and a crowding out effect. Adam and Bevan (2001) investigated the relationship between fiscal deficit and growth for 45 developing countries using co-integration model and threshold. It was found that there is significant relationship between fiscal deficit and growth in developing countries and that there is evidence of interaction effect between debt stocks exacerbating the adverse consequence of high deficit. Brauninger (2002) examined the interaction of budget deficit, public debt and endogenous growth in Spain using co-integration analysis. It was revealed that if the ratio of deficit fixed by government is below a critical level, then there are two steady states where capital and public debt grow at the same constant rate and an increase in the deficit ratio will reduce the growth rates of gross domestic product (GDP). This means that if the deficit ratio exceeds the critical level, then there is no steady state of economy. Pattillo, Helene and Luca (2002) used growth accounting model to investigate the effect of external debt on economic growth in a group of 61 developing countries. The study observed that doubling the average level of 61 developing countries external debt reduced the growth of the country's economy. The results obtained confirm the debt overhang because they found that beyond the debt-to-export ratio of 160-170 percent and debt-to-GDP ratio of 35-40 percent in nominal value, the debt overhang led to negative economic growth.

Clements, Rina, Benedict and Toan (2003) used modified growth model to investigate the impact of debt burden hypothesis on economic growth. The study found that a six point debt service reduction in percentage of GDP will increase the investment rate from 0.75 to one point and the growth to two points. They concluded that if half of the debt service were cancelled without a rise in the budget deficit, growth will increase by 0.5 percent per annum. With the use of non-parametric methodology in an economy, Adeboye (2003) examined the long run relationship between budget deficit and economic growth incorporating savings and investment. He grouped 64 developing countries, Nigeria inclusive into A, B, and C based on their level of interest rate. The study indicates that crowding out effect of budget deficit on private investment in Nigeria's economy has significance impact on the economic growth output, the level of employment, the standard of living. The study recommends that the government should put adequate measures in place to reduces its recurrent expenditure and increase its capital expenditure in order to encourage and make conducive environment for private investment to grow which will help the level of income growth in short and long run. Okoye and Akenbor (2010) examined the impact of deficit financing on socio-economic activities in Nigeria from 1997 to 2007 using Pearson product moment correlation coefficient to test the significance of the relationship between deficit financing, economic and social community service. The study found that deficit financing has a positive and significant impact on economic activities in Nigeria. Taiwo and Agbatogun (2011) used unit root test, co-integration test and error correction model to investigate the implications of government spending on economic growth in Nigeria spanning from 1980 to 2009. It was found that total capital expenditure, inflation rate, degree of openness and current government revenue are the most significant variables that help to improve or boost growth in Nigerian economy. It was recommended that future spending on capital and recurrent must be managed well with adequate manipulation of other macroeconomic variables so as tom ensure steady growth in the economy.

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) undertook a in a study of deficit financing and its effect on economic growth in Nigeria, employed 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.

**Theoretical Framework**

There are many theories (Keynesian economics theory, neoclassical economics theory, Ricardian equivalence approach, Fiscal Theory of Price Level and Musgrave Theory of Public Expenditure) which seek to explain the implications of deficit financing on the performance of economic stability around the world. These theories are of relevance to this study as they serve as building blocks to this thesis. For the purpose of this study, the theoretical frameworks that were considered relevant are as follow:

**Keynesian Economic Theory**

Keynesian Economic Theory was developed by British Economist John Maynard Keynes (1936) and was used by Ali (2014); Bakare, Adesanya and Bolarinwa, (2014); Muhhammad, Sofia, Syed and Abbas, (2014); Okelo, Momanyi, Lucas and Alia, (2013); Okoro, (2013); Ojong and Hycenth (2013) in their studies. Keynesian theory states that public expenditures can contribute positively to economic growth by increasing government consumption through increase in employment, profitability and investment. The theory also states that government can reverse economic downturns by borrowing money from the private sector and returning the money to private sector through various spending. This theory believes that active government intervention in the market place through deficit financing was the only method for ensuring growth and stability by ensuring efficiency in resources allocation, regulation of markets, stabilization of the economy and harmonization of social conflicts. Keynes states that in the short run, economic growth through economic stability is strongly influenced by total spending in the economy. This theory regards the economy as being inherently unstable and required active government intervention through spending to achieve economic stability. Parkim (1990) opines that Keynesian assign a low degree of importance to monetary policy and high degree of importance to fiscal policy. Bowden (1982) in Ojong and Hycenth (2013) states that Keynesian economics believes that our ability to understand what determines the level of spending will help us to know what determine the level of employment, production of output and income in the economy. Keho (2010) states that budget deficit has a positive effect on macroeconomic activity and thereby stimulating savings and capital formation. Deficit financing whether through domestic resources or foreign borrowings involves the absorption of real resources by the public sector that otherwise would be available to the private sector (Okelo, Momanyi, Lucas and Alia, 2013). Keynesian theory stimulates the economy, reduces unemployment and makes households feel wealthier using government spending (Usher, 1998). In another view, Okpanachi and Abimiku (2007) opine that budget deficit stimulates economic activities in the short run by making households feel wealthier and hence, raising total private and public consumption expenditure. This means that Keynesian theory causes money demand to rise and interest rate will also increase which will make investment to decline. Keynesian economists often argue that private sector decisions sometimes lead to inefficient macroeconomic outcomes which require active policy responses by the public sector, in particular, monetary policy actions by the Central Bank of Nigeria and fiscal policy actions by the federal Ministry of Finance, in order to stabilize output over the economy thesis. For the purpose of this study, the theoretical frameworks that were considered relevant are as follow:

**Neoclassical Theory**

Bluatia (2010) Argued that neoclassical group of economists proposed an adverse relationship between budget deficits and macroeconomic aggregates. They maintained that budget deficits lead to higher interest rates discourages the issue of private bonds, private investment, private spending and increases inflation level and creates a similar increase in current account deficits and slows the growth rate of the economy through resources crowding-out. This school of thought considers individuals planning their consumption over their entire cycle by shifting taxes to the future generations. Budget deficits increase current consumption by assuring full employment of resources. The neoclassical maintains that increased consumption means a decrease in savings. Interest rate must rise as to bring about equilibrium in the capital market.

Higher interest rates in turn bring about a decrease in private investment, domestic production and an increase in the aggregate price level. Yellen (1989) argued that in standard neoclassical macroeconomic models, if resources are fully employed so that output is fixed, higher current consumption means an equal and offsetting reduction in other forms of spending. Therefore, investment or net exports must be "fully crowded-out." It is important at this point to differentiate between "financial" crowding out and "resources" crowding out which occurs when the government competes with the private sector on purchasing certain resources such as skilled labour, raw materials etc. when the government sector expands, the private sector will contract because of the increase in prices of these resources due to an excess demand by the government. This will lead to a fall in investment and consumption by the private sector. Therefore, the government sector's expansion crowds out the private sector; the resources crowding out are an important issue to take into account especially in a developing country like Nigeria where resources are scarce even sometimes to the private sector. Any excess demand for these resources by the government will severely impinge on private sector productivity.

**The Ricardian Theory**

There is another model or approach as advanced by Barro (1989) called Ricardian Equivalence Hypothesis (REH). This model suggests that government budget deficits do not affect the total level of demand in an economy. This model was initially proposed by the 19th century economist such as David Ricardo. This theory simply denotes that government may either finance their spending by taxing current taxpayers, or they may borrow money. If funds are borrowed, government must eventually repay this fund by raising taxes above what they would otherwise have been in the future; the choice therefore is between "tax now" and "tax later". David Ricardo argued that although taxpayers would have more money or fund now, they would realize that they would pay higher tax in future and save the extra money in order to pay the future tax. The extra savings by consumers would offset the extra spending by government; therefore overall demand would remain unchanged. Recently economists such as Barro (1990) have developed sophisticated variations on this idea by using the theory of rational expectations. Ricardian equivalence suggests that government's attempt to influence demand by using fiscal policy will prove fruitless. He maintained that an increase in budget deficits as a result of an increase in government spending must be paid for either now or later, with total present value of receipts fixed by the total present value of spending. Which suggests that on cut in today's taxes must be matched by an increase in future taxes leaving real interest rates and thus private investment and the current account balance, exchange rate and domestic production unchanged. Therefore budget deficits do not crowd-in nor crowd out macroeconomic variables, that is no positive or negative relationship exists.

**METHODOLOGY**

This study in an attempt to investigate the Impact of Budgetary Deficit on the Nigerian Economic Growth utilized the exploratory research approach. The major findings are subsequently discussed to provide a deeper perspective to the issue in question.

**RESULT AND DISCUSSION**

The major finding from this study is the fact that; there is significant positive correlation between deficit financing and economic growth in Nigeria. From this finding its clear to conclude that deficit financing have positive impact on economic performance of Nigeria, This clearly shows that financing activities affects economic growth positively. From our findings inflation has been established as monetary phenomenon in Nigerian economies; for budget deficit to be effective, some fundamental changes in the productive base of the economy need be made. Based on the study findings, government of these economies should pursue policies capable of reducing in the size of informal sector which has imposed greater constraint to revenue collection and generation. Also, interest rate should be further reduced to enable availability and accessibility of funds for private sector investment which will contribute significantly to economic growth of the Nigeria. Furthermore, exchange rate depreciation should be discouraged in the economy as it has negative implication to the economic growth. Moreover, the regional blocks which these economies belong should be mindful of adoption of one-way-fit-all policy as it may have different consequences on individual economy rather than all member countries. Finally, fiscal discipline is highly recommended for the both economies to combat unsustainable fiscal deficits. Views and opinions expressed in this study.

**CONCLUSION AND RECOMMENDATION**

Based on the findings of this study which show that, there was causal relationship between budget deficit and inflation in Nigeria, government should display a high sense of transparency in the fiscal operations to bring about realistic fiscal deficits. Fiscal deficits, where recorded, should be channeled to productive investments like road construction, electricity provision and so on, that would serve as incentives to productivity through the attraction of foreign direct investments, in other to reduce the incidence of inflation in Nigeria. Also, the implication of these findings was that both budget deficit and inflation could be caused by money supply meaning that they were both monetary phenomenon. Inflation was also found to be dependent on performance of the budget (deficit). The increase in money supply could as well help to cushion the extent of budget deficit in an economy, whereas, the same increase in money supply might still lead to an increase in the rate of inflation. Hence, adequate monetary policy should be geared towards balancing the role money supply performs to both budget deficit and inflation, noting that there was uni-directional relationship between budget deficit and inflation.

Based on the causal relationship that exists between budget deficit and inflation, relevant measures has to be put in-place in order to enhance policy coordination among various arms of government, especially monetary policy should be made to complement fiscal policy. According to the result of this research work, inflation has been established as monetary phenomenon in Nigeria. Then, for inflation to be curtailed, government should strongly adhered to fiscal discipline at all levels for budget deficit to be effective. In the quest of Nigeria to achieve high and sustained long-run economic growth, monetary policy has to be strengthened to act as checks and balances, that is, monetary policy should be used to complement fiscal policy, in order to curtail inflation when budget deficit is used as fiscal policy instrument. From the research study, it was impossible for aggregate demand side of the economy to be motivated without causing inflation in an economy. Hence, government has to employ policy mix so as to put inflation under control if the gain that government intends to achieve through the promotion of economic growth is not to be eroded.

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