



DEFICIT BUDGET FINANCING AND ECONOMIC GROWTH IN NIGERIA

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Abstract

As a nation grapples with development challenges, the strategic utilization of deficit budgets emerge as a prominent policy tool for fostering economic expansion. This study examined the effects of deficit budget financing on economic growth in Nigeria from 1981 to 2023. Ex-post-facto design was adopted for the study. Three hypotheses were formulated and tested at 0.05 level of significance. The study employed secondary data obtained from published statistical bulletin of Central Bank of Nigeria between 1981 to 2023. The data gathered was analysed using ordinary least square regression technique via E-views version 9. Findings revealed that Federal Government domestic debts, external debts and exchange rate have a significant effect on real gross domestic product in Nigeria between 1981 to 2023. It was recommended that the federal government of Nigeria should maintain optimum level of domestic debt as it represents a veritable mechanism through which the much-desired accelerated and sustainable economic growth can be achieved.

Keywords: Deficit budget, Finance and Economic growth

Introduction

From 1981 to 2023, Nigeria's financial situation depended heavily on the relationship between deficit budget financing and economic expansion. The deliberate use of deficit budgets became a popular policy instrument for promoting economic growth as a country struggled with development issues (Ughulu, 2021). Nigeria's economic trajectory was shaped during the time under review by the dynamic interaction of fiscal policies, external forces, and internal dynamics. Determining the complexities that have shaped the nation's financial environment over the previous forty years requires an understanding of this complex relationship. According to Kurantin (2017), Nigeria experienced a number of economic difficulties starting in 1981, such as falling oil prices, heavy external debt, and the requirement for significant infrastructure expansion. In order to boost economic activity and satisfy growing spending demands, the government used deficit budget financing as a key tactic. The pursuit of sustainable growth, domestic political

dynamics, and worldwide economic trends all had an impact on the subsequent years' erratic pattern of deficit budgets. Nigeria's economy was characterized by both successes and setbacks during this time. Nigeria's economy was susceptible to the volatility of the world oil markets due to its reliance on oil (Emiefele et al., 2019). Sustained economic growth was severely hampered by mismanagement, corruption, and fluctuating oil prices.

In light of this, deficit budget financing became a useful tool for closing funding gaps, accelerating investments, and promoting development projects. However, careful financial management, open governance, and the capacity to strike a balance between immediate economic stimulus and long-term sustainability were necessary for this strategy to be effective. Nigeria's economic environment was permanently altered by a number of economic reforms, governmental changes, and international events that occurred during the research period. The relationship between deficit budget financing and

economic growth became more complicated as a result of attempts to diversify the economy, economic liberalization policies, and the shift from military to civilian authority (Monogbe & Okah, 2018). The late 2000s worldwide financial crises emphasized even more how Nigeria's economic situation is intertwined with the larger international landscape.

It is clear from looking at the trajectory from 1981 to 2023 that Nigeria's deficit budget financing is more than just a fiscal instrument; it is a reflection of the country's economic adaptability and resilience as well as the difficulties in achieving sustained growth. By analyzing the policies, outside influences, and internal elements that have influenced Nigeria's economic development, this study seeks to explore the complex dynamics of deficit budget financing during this time.

Nigeria's complex relationship between deficit budget finance and economic growth between 1981 and 2023 is a complex issue that needs close examination. The viability of deficit budgeting as a tactic for economic growth is one of the main issues. Concerns regarding the long-term effects on fiscal stability and the possible build-up of unsustainable amounts of public debt are raised by the continued reliance on deficit financing to close budgetary gaps.

Hypotheses

H0₁: Federal Government domestic debts has no significant effect on real gross domestic product in Nigeria.

H0₂: Federal Government external debt has no significant effect on real gross domestic product in Nigeria.

H0₃: Exchange rate has no significant effect on real gross domestic product in Nigeria.

Literature Review

Deficit Budget Financing

In Nigeria, the term "deficit budget financing" describes a fiscal scenario in which the government's outlays surpass its receipts, creating a budget deficit. The government may use deficit financing to cover its spending needs when revenue is insufficient. This can be accomplished in a number of ways, such as by issuing bonds, borrowing money from both local and foreign sources, or using other financial instruments (Adeleke & Abdulsalam, 2016). Deficit budget financing is frequently used to support important social programs, infrastructure projects, and other endeavors meant to promote economic growth. Deficit budget financing can boost economic growth, but it must be handled properly to prevent unfavorable outcomes like inflation, increasing debt, and strain on the financial system.

According to Arjonand et al. (2016), deficit budget financing is a popular tactic used in Nigeria to meet the nation's development needs. Both locally and internationally, the government may borrow money to finance initiatives and services that support sustained economic growth. To maintain macroeconomic stability while promoting economic growth, however, sound fiscal management is essential. In Nigeria, responsible deficit budget financing can be achieved through the prudent use of borrowed funds, open budgetary procedures, and an emphasis on high-return projects. This would guarantee that the advantages of higher expenditure are long-lasting and beneficial to the country's general economic health.

Domestic Debt

Liabilities owed by a nation's government and citizens are referred to as domestic debt. It is the sum of money that

the government raises from its own citizens using local currency. Bank and non-bank borrowings are the two main forms of domestic debt. The central bank's advances and loans to the government comprise bank borrowing (Dogwom, 2016). Nigeria's domestic debt, which represents the money borrowed by the federal government from domestic sources to pay financial obligations and cover budget deficits, is a crucial tool for deficit budget financing. When the government spends more than it takes in, it creates a budget deficit. The government may raise money from local investors by issuing bonds, Treasury bills, or other debt instruments on the domestic market in order to close this gap. Domestic debt accumulation enables the government to finance a range of initiatives and programs, promoting economic expansion. However, careful management of domestic debt is necessary to avoid negative economic repercussions like inflation and rising interest rates, which can affect the cost of debt servicing.

According to Ifeanyi et al. (2019), tracking Nigeria's domestic debt levels offers information about the government's financial stability and ability to maintain deficit budget funding. To keep the domestic debt at reasonable levels, prudent fiscal policies and efficient debt management techniques are essential. To maximize the advantages of deficit budget financing without jeopardizing macroeconomic stability, a balance must be found. A competent domestic debt management strategy in Nigeria must also prioritize investments that support long-term economic growth and be transparent in the use of borrowed funds.

External Debt

The part of a nation's debt that is borrowed from foreign lenders, such as governments, commercial banks, or

international financial institutions, is known as external debt (IMF, 2020). Payment for these loans and interest must be made in the currency used at the time of contract. Nigeria's federal government's external debts, which are money borrowed from overseas sources to support development projects or fill budget gaps, constitute a significant part of the country's deficit budget funding. The government turns to deficit finance when its spending exceeds its income, and borrowing from outside sources is one way to close the difference (Momodu & Momogbe, 2017). Infrastructure projects, social programs, and other vital measures meant to promote economic growth are frequently funded by the accrued external loans. However, since it affects the nation's creditworthiness and may cause exchange rate changes, managing external loans is essential. To guarantee that the borrowed money is invested prudently to provide returns that can eventually pay off the debt without placing an unsustainable strain on the country's economy, a balance must be achieved.

External Rate

When it comes to Nigeria's deficit budget finance, the exchange rate is a major factor in determining the government's capacity to control fiscal imbalances. When a government spends more money than it takes in, a budget deficit results. This is known as deficit budget financing. The currency rate has a major role in Nigeria's deficit budget financing since the government may borrow money both locally and abroad to make up the difference. The impact on the exchange rate is twofold, according to Nwana and Umeh (2019). First, a rise in deficit budget financing may cause the national currency to decline since higher borrowing levels may result in inflationary pressures. Secondly, the country's foreign debt may rise if the deficit budget financing is

funded by external borrowing, which could have an impact on the exchange rate as investors evaluate the nation's creditworthiness.

Nigerian policymakers must carefully take exchange rate movements into account while managing deficit budget funding in order to preserve economic stability. To reduce possible negative effects on the exchange rate, structural reforms and sound monetary and fiscal policies are crucial. Sustainable economic growth can be aided by a well-managed deficit budget financing approach, but it must be balanced to maintain exchange rate stability and protect the nation's long-term financial stability.

Economic Growth

Economic growth in Nigeria denotes the continuous rise in the nation's production and consumption of goods and services over a period. Economic growth is frequently assessed through the increase in Gross Domestic Product (GDP), which indicates the aggregate value of all goods and services generated within a nation's borders. According to Etim et al. (2021), infrastructural investments, enhanced business environments, technological breakthroughs, and successful economic policies are important elements that support Nigeria's economic growth. Increased employment possibilities, higher income levels, and higher living standards for the populace are typically the results of a booming economy. However, issues including political unpredictability, corruption, and reliance on oil exports have historically made it difficult for Nigeria to experience inclusive and sustainable economic progress.

Nigeria must diversify its economy, lessen its reliance on oil, and deal with structural problems in order to achieve strong and equitable economic growth. This entails putting policies into place that

support industrialization, improve education and skill development, and create a climate that is favorable to business in order to draw in both foreign and local investment. According to Adesina (2015), tackling problems like corruption and enhancing governance will help create a more robust and sustainable economy, guaranteeing that the advantages of economic expansion are extensively distributed throughout the populace.

Real Gross Domestic Product

Real Gross Domestic Product (GDP), which is the total value of all goods and services generated in Nigeria after accounting for inflation, is a crucial indicator of the country's economic growth. In order to provide a more realistic representation of actual economic activity over time, the term "real" suggests that the GDP estimates are adjusted to account for changes in price levels (Adesina, 2015). Real GDP is a crucial measure of Nigeria's economic development and performance. It acts as a standard for evaluating the effectiveness of economic policies, the results of investments, and the general state of the economy. Economic growth is shown by a steady rise in real GDP, which shows that the country is creating more goods and services. This could lead to gains in employment, income levels, and general living standards. It is crucial to take into account both the quantitative and qualitative elements that support sustainable development when using real GDP as a gauge of economic growth in Nigeria (Igbasan, 2017). In order to ensure that the advantages are dispersed more fairly among different industries and demographics, this entails tackling structural issues, diversifying the economy, and putting policies in place that promote inclusive growth. A thorough grasp of Nigeria's economic situation can be obtained by tracking real GDP growth in

conjunction with other economic indicators. This helps policymakers develop plans to overcome obstacles and advance long-term prosperity.

Deficit Budget Financing and Nigerian Economy

Nigeria's deficit budget financing began in 1961, and it appeared to be warranted given the government's vigorous pursuit of rapid and sustainable economic growth in the immediate post-independence era. However, the need for deficit budget financing increased between 1973 and 1979, mostly as a result of the shocks to the world's oil prices, which led to current account deficits. Nigeria's yearly budgets have been in deficit ever since (Nwanna & Umeh, 2019). The annual deficits as a proportion of GDP have been continuously increasing, which has dire implications for public debt and, inevitably, economic growth. For instance, Nigeria's national debt resulting from deficit budget financing was \$50.85 billion in 2015, or 20.33 percent of GDP; \$63.11 billion in 2016, or 23.41 percent of GDP; \$76.52 billion in 2017, or 25.34 percent of GDP; \$93.82 billion in 2018, or 27.66 percent of GDP; and \$111.54 billion in 2019, or 29.14 percent of GDP (<https://www.statista.com>). The debts of the states, towns, municipalities, and social insurance are included in these figures, which pertain to the entire nation. There is no denying that Nigeria's ever increasing national debt levels are seriously jeopardizing the standard of life for the country's future generations, who will inherit nothing from these careless borrowings. Maybe this clarifies why Hicks, Marshall, Chamberlin, and Samuelson, holds that African continent's current predicament is primarily the result of domestic economic distortions and an over-reliance on developed nations (Bhatia, 2016).

Keynesian Theory

The discourse surrounding deficit budget finance and economic growth, especially in the context of Nigeria, is greatly influenced by the Keynesian theory, which was formulated by economist John Maynard Keynes in 1936. Keynesian economics holds that governments can boost growth by raising expenditure during recessions or downturns, even if doing so results in a budget deficit. The Keynesian approach has persuaded policymakers in Nigeria, where economic difficulties are common, to use deficit budget financing as a counter-cyclical strategy to increase aggregate demand and stimulate economic growth. The government's use of deficit budgets to fund social programs, infrastructure projects, and other endeavors meant to promote economic growth is a clear example of how Keynesian concepts are applied in Nigeria. During economic downturns, the government deliberately runs budget deficits in an effort to boost consumer spending, generate jobs, and infuse money into the economy. However, this strategy's efficacy hinges on the government's capacity to prudently manage deficits, guaranteeing that the borrowed money goes toward profitable ventures that produce long-term economic gains. Although the Keynesian viewpoint justifies deficit budget funding to deal with immediate economic problems, the long-term viability of such policies becomes crucial. Concerns including inflation, growing public debt, and other macroeconomic imbalances could result from a persistent dependence on deficit spending without a commensurate focus on fiscal restraint and long-term planning. As Nigerian policymakers negotiate the complexity of deficit budget financing and its consequences for sustainable economic growth, striking a balance between the short-term stimulus recommended by

Keynesian economics and the necessity of fiscal discipline continues to be a major difficulty.

Prior Studies

Ughulu et al. (2023) looked into how Nigeria's economic growth was affected by deficit finance between 1981 and 2019. The World Bank Global Development Index and the Central Bank of Nigeria provided secondary data for the study. The study's data were analyzed using the econometrics' completely modified ordinary least squares methodology. The study's main conclusions demonstrated that while the external debt variable had a negative and negligible effect on Nigeria's economic growth, the domestic debt, budget deficit, foreign exchange reserves, and broad money supply variables all had positive effects. Therefore, the study came to the conclusion that public borrowing in Nigeria can only lead to quick and sustainable economic growth if the borrowed money is only heavily spent in linked infrastructure projects that would produce income and supplement domestic financial resources. As a result, the report suggested that Nigeria's federal government thoroughly examine the country's economic situation in order to make investments in infrastructure that is deemed essential to achieving sustained economic growth.

Ifeanyi and Umeh (2019) used secondary data from 1981 to 2016 to study the impact of deficit financing on Nigeria's economic growth. According to their research, Nigeria's economic growth was negatively but significantly impacted by external debt, positively and significantly impacted by domestic debt, and not significantly impacted by debt payment. In order to minimize corruption, leaks, and waste, they suggested that the government establish monitoring teams to make sure the

country's budget is meticulously implemented.

Faraji and Makame (2023) used time series data on external debt and economic performance from 1990 to 2010 to examine the effect of external debt on Tanzania's economic growth. The study's conclusions demonstrated that external debt and GDP had no long-term correlation. Additionally, the results demonstrated that GDP growth was significantly impacted by both external debt and debt service payments, with the total foreign debt stock having a positive effect of 0.36939 and debt service payments having a negative effect of -28.517 on Tanzania's economic growth. Nwanna and Umeh (2019) used secondary data from 1981 to 2016 to investigate how deficit financing affected Nigeria's economic growth. Their regression exercise utilizing the OLS methodology showed that Nigeria's economic growth was negatively yet significantly impacted by deficit financing through foreign borrowing. Additionally, they discovered that domestic debt had a favorable and significant impact on Nigeria's economic growth, whereas the debt service variable had no discernible impact.

Umaru et al. (2021) employed annual time series data from 1981 to 2019 to investigate the linear and non-linear relationship between Nigeria's budget deficit and economic growth. A threshold autoregressive (TAR) model was used to compare the non-linear analysis with the linear model, which uses an autoregressive distributed lag (ARDL) approach. The ARDL research shows that Nigeria's ongoing budget deficit is a positive driver of the country's economic growth. This was supported by the TAR model, which shows that while Nigeria's budget deficit stimulates economic growth, this relationship is only beneficial while the deficit is below the ideal level of 2.02 percent

of GDP. Interest rates significantly and negatively affect economic growth, whereas exchange rates have no effect, according to our analysis of the control variables. In order to prevent fiscal deficits from exceeding 2.02 percent of GDP, we advise the government to cut interest rates and implement an expansionary fiscal policy. Ali et al. (2018) investigated how deficit financing affected Nigeria's economic expansion between 1981 and 2016. The time series variables' stationarity properties were determined using Augmented Dickey-Fuller, and the regression analysis was performed using the ARDL technique. Real gross domestic product, government deficit, exchange rate, interest rate, and domestic private investment are among the factors considered. The findings demonstrated that Nigeria's output growth has been greatly impacted by government deficit financing over time.

Methodology

This research adopted ex-post facto research design. Ex-post facto involves a systematic empirical inquiry, in which an observer has no direct control of independent variables because their manifestations have already occurred or because they are inherently not manipulated. This is appropriate because the study aims at measuring the relationship between deficit budget financing and economic growth in Nigeria. The population of the study consist of domestic debts, external debt, exchange rate and real gross domestic product figures

based on the available data for the period (1981-2023) in Nigeria. The study basically employed secondary data sources which were extracted from Central Bank of Nigeria, Annual statistical bulletin from 1981 to 2023. It is believed that obtaining data from published annual reports of CBN, constitutes the most authoritative and accessible means for establishing the effects of deficit budget financing and economic growth in Nigeria. Both descriptive and regression analysis was utilized in the study. Descriptive statistics was computed using E-views which amongst other things help show the pattern, distribution, deviation and nature of the data. For the regression analysis, Ordinary Least Square (OLS) Regression using E-view Software Package was used to analyse and test the hypothesis

The functional form of the model used in this study is specified as follows:

$$\text{RGDP} = f(\text{FGDD}, \text{FGED}, \text{EXR})$$

Where: RGDP (Real Gross Domestic Product), FGDD, FGED, EXR (Federal Government Domestic Debts), FGED (Federal Government External Debts) and EXR (Exchange Rate), From Model 1, the econometric equation is stated thus:

$$DP_t = \beta_0 + \beta_1 \text{FGDD}_t + \beta_2 \text{FGED}_t + \beta_3 \text{EXR}_t + \mu_t \text{-----} 2$$

Where: β_0 = intercept; β_1 = coefficient of parameter FGDD; β_2 = Coefficient of parameter FGED B_3 = Coefficient of parameter EXR

Results, Conclusion and Recommendations.

Descriptive statistics of focused variable

	RGDP	FGDD	FGED	EXR
Mean	24964059	4038.054	2702.228	54.91929
Median	22060982	1091.485	669.3250	13.87500
Maximum	69799942	22210.36	18702.25	200.1600
Minimum	13793.00	11.19000	2.330000	1.120000

Std. Dev.	25792371	5852.148	4281.546	65.36930
Skewness	0.674213	1.012670	1.353025	1.092033
Kurtosis	1.764108	2.541301	2.076075	2.711882
Jarque-Bera	4.247147	21.91350	83.84852	8.493028
Probability	0.119603	0.000017	0.000000	0.014314
Sum	1.05E+09	169598.3	113493.6	2306.610
Sum Sq. Dev.	2.73E+16	1.40E+09	7.52E+08	175199.0
Observations	42	42	42	42

Source: E-View Output (2024)

Table illustrates vividly the descriptive statistics of the primary variables in the study. It shows the total number of observations, mean, median, maximum, minimum, standard deviation, kurtosis, and skewness. The dependent variable real gross domestic product had mean value of 24964059 and the standard deviation value of 25792371. It was revealed also, that all the variables have positive average values (means). The FGDD, FGED and EXR had mean values of 4038.054, 2702.228 and 54.91929 respectively. The independent variables also show signs of positive skewness.

Results of Diagnostic Statistics

Test for Normality

Augmented Dickey Fuller Unit Root Intercept (series at a level and 1st difference

Unit Root Test

Variables	Level	
	C	C&T
RGDP	0.04	0.0624
FGDD	.001	0.999
FGED	0.002	0.247
EXR	0.0010	

E-Views Output (2024)

The result for unit root test of ADF shows that Real Gross Domestic Product (RGDP), Federal Government Domestic Debts (FGDD), Federal Government External Debts

The normality of the distribution of the data series is shown by the coefficients of Skewness and Kurtosis coefficients. The skewness coefficients which is less than or around figure one in all the variables under study. The kurtosis coefficient also provides a second level of confirmation that all the explanatory variables are normally distributed with a Kurtosis coefficient that is less than or around three.

Unit Root Analysis

The Augmented dickey Fuller (ADF) test statistic was employed to test for the existence of unit root in the data using trend and intercept. The test results are presented below.

(FGED), and Exchange Rate (EXR) are stationary at Zero difference intercept. This implies that the regression estimate is the appropriate estimation technique.

Correlation Matrix**Correlation Matrix of the focal variables**

	RGDP	FGDD	FGED	EXR
RGDP	1			
FGDD	0.7728	1		
FGED	0.5275	0.8736	1	
EXR	0.8358	0.9534	0.7461	1

E-views Output (2024)

The correlation matrix is to check for multi-collinearity and to explore the association between each explanatory variable and the dependent variable. For multi-collinearity, the study observed that no three explanatory variables were perfectly correlated.

Testing Hypothesesble. This shows that RGDP has positive association with FGDD, FGED and EXR. In che ***H₀₁: Federal Government domestic debts has no significant effect on real gross domestic product in Nigeria.***

Regression Analysis on Federal Government domestic debts and real gross domestic product

Dependent Variable: RGDP

Method: Least Squares

Date: 02/07/24 Time: 21:37

Sample (adjusted): 1981 2022

Included observations: 42 after adjustments

Variable	Coefficien	t	Std. Error	t-Statistic	Prob.
C	11209712		3118802.	3.594237	0.0009
FGDD	3406.182		442.2249	7.702376	0.0000
R-squared	0.597288		Mean dependent var		2496405
Adjusted R-squared	0.587220		S.D. dependent var		9
S.E. of regression	16571065		Akaike info criterion		2579237
Sum squared resid	1.10E+16		Schwarz criterion		36.13066
Log likelihood	-756.7439		Hannan-Quinn		36.21341
F-statistic	59.32659		Durbin-Watson stat		36.16099
Prob(F-statistic)	0.000000				0.365195

E-Views Output (2024)

The result of the regression analysis revealed that FGDD value had a positive effect on real Gross Domestic Product (RGDP). This is indicated by the signs of the

coefficients, that is β_1 , which is 3406.182. The coefficient of the independent variable is positive that is, a unit increase in FGDD by 1% would cause 3406.182 increase in RGDP

when all other factors are kept constant. The overall coefficient of determination of Adjusted R-squared which is the explanatory power of the model is 0.597288; this implies that within the model context FGDD is responsible for 59.7% variation in RGDP. The tables also revealed that the p-values for

FGDD is 0.000. The p-value of the t-statistics of FGDD is less than the chosen level of significance 5%, hence H_{01} , is rejected. Therefore, Federal Government domestic debts has a significant effect on real gross domestic product in Nigeria between 1981 and 2022.

H₀₂: Federal Government external debt has no significant effect on real gross domestic product in Nigeria.

Regression Analysis on Federal Government external debt and real gross domestic product

Variable	Coefficien t	Std. Error	t-Statistic	Prob.
C	16376825	4061826.	4.031887	0.0002
FGED	-3177.835	809.1801	6.927228	0.0003
				2496405
R-squared	0.027828	Mean dependent var		9
				2579237
Adjusted R-squared	0.260237	S.D. dependent var		1
S.E. of regression	22183890	Akaike info criterion		36.71408
Sum squared resid	1.97E+16	Schwarz criterion		36.79682
		Hannan-Quinn		
Log likelihood	-768.9957	criter.		36.74441
F-statistic	15.42312	Durbin-Watson stat		0.204275
Prob(F-statistic)	0.000331			

E-Views Output (2024)

The result of the regression analysis revealed that Federal Government external debt (FGED) value had a negative effect on real gross domestic product (RGDP). This is indicated by the signs of the coefficients, that is β_2 which is -3177.835. That is, a unit increase in FGED by 1% would cause 3177.835 decrease in RGDP. The overall coefficient of determination of Adjusted R-squared which is the explanatory power of

the model is .0278; this implies that within the model context FGED is responsible for 2.78% variation in RGDP. The tables also revealed that the p-values for FGED is 0.0003, which is less than the critical value of 0.05, hence H_{02} is rejected. Therefore, Federal Government external debt has a significant effect on real gross domestic product in Nigeria between 1981 and 2023.

H₀₃: Exchange rate has no significant effect on real gross domestic product in Nigeria.

Regression Analysis on exchange rate and real domestic product

Dependent Variable: RGDP

Method: Least Squares

Date: 02/07/24 Time: 21:40

Sample (adjusted): 1981 2022

Included observations: 42 after adjustments

Variable	Coefficien	t	Std. Error	t-Statistic	Prob.
C	6852356.		2903640.	2.359920	0.0232
EXR	-329787.7		34249.39	9.629008	0.0000
R-squared	0.698609	Mean dependent var			2496405
Adjusted R-squared	0.011074	S.D. dependent var			9
S.E. of regression	14335690	Akaike info criterion			2579237
Sum squared resid	8.22E+15	Schwarz criterion			35.84085
Log likelihood	-750.6579	Hannan-Quinn			35.92360
F-statistic	92.71780	crit.			35.87118
Prob(F-statistic)	0.000000	Durbin-Watson stat			0.395442

Source: E-views Output (2024)

The result of the Regression analysis shown here revealed that exchange rate (EXR) value had a negative effect on real gross domestic product (RGDP). This is indicated by the signs of the coefficients, that is β_3 which is -32978.7. That is, a unit increase in EXR by 1% would cause 32978.7 decrease in RGDP. The overall coefficient of determination of Adjusted R-squared which is the explanatory power of the model is .0386; this implies that within the model context EXR is responsible for 69.86% variation in RGDP. The tables also revealed that the p-values for EXR is 0.000, which is less than the critical value of 0.05, hence H_{03} is rejected. Therefore, Exchange rate has a significant effect on real gross domestic product in Nigeria between 1981 and 2023.

Effect of Federal Government Domestic Debts on real gross domestic product in Nigeria

The result revealed that a unit increase in FGDD by 1% would cause

3406.182 increase in RGDP when all other factors are kept constant and that FGDD is responsible for 59.7% variation in RGDP. Also, Federal Government domestic debts has a significant effect on real gross domestic product in Nigeria between 1981 and 2023. This supports Ughulu et al., (2023) who investigated the impact of deficit financing on economic growth in Nigeria for the period 1981 to 2019 and reported that the federal government domestic debt variable, the federal government budget deficit variable, the foreign exchange reserves variable, and the broad money supply variable exerted positive impacts on economic growth, while the external debt variable exerted a negative and insignificant impact on economic growth in Nigeria. Also, the finding supports Solawon and Adekunle (2018) who carried out a study on the effect of deficit financing on Nigeria's economic growth from 1986 to 2016 using secondary data sourced from the Central

Bank of Nigeria and reported that all the explanatory variables, with the exception of budget deficit, exerted positive and significant effects on economic growth.

Effect of Federal Government External Debts on real gross domestic product in Nigeria

The result revealed that a unit increase in FGED by 1% would cause 3177.835 decrease in RGDP and FGED is responsible for 27.8% variation in RGDP. Also, Federal Government external debt has a significant effect on real gross domestic product in Nigeria between 1981 and 2023. This supports Ogwueleka (2022) who examined the impact of deficit financing (DF) on Nigeria's economic growth from 1984 to 2019 and reported that external debt has negative impact on each of the directly productive sectors (DPS) in Nigeria. This contradicts Faraji and Makame (2023) who investigated the impact of external debt on the economic growth of Tanzania using time series data on external debt and economic performance for the period 1990 to 2010 and reported that external debt and debt service payments had significant impact on GDP growth. Finally, it supports Nwanna and Umeh (2019) who examined the effect of deficit financing on Nigeria's economic growth using secondary data spanning from 1981 to 2016 and reported that deficit financing through external borrowing had a negative but significant effect on Nigeria's economic growth.

Effect of exchange rate on real gross domestic product in Nigeria

The result revealed that a unit increase in EXR by 1% would cause 32978.7 decrease in RGDP and EXR is responsible for 69.89% variation in RGDP. Also, Exchange rate has a significant effect on real gross domestic product in Nigeria between 1981 and 2023. This supports Umaru, et al. (2021)

who examined the relationship between budget deficit and economic growth in Nigeria, from a linear and non-linear perspective, using annual time series data from 1981 to 2019 and reported that the negative relationship holds only if the deficit does not exceed the optimal threshold, which is 2.02 per cent of GDP.

Conclusion

This study examined the effects of deficit budget financing on economic growth in Nigeria from 1981 to 2023. The study has established that Federal Government domestic debts, external debts and exchange rate have a significant effect on real gross domestic product in Nigeria. Also, the study affirmed that Federal Government External Debts and exchange rate (EXR) had a negative effect on real gross domestic product (RGDP) in Nigeria between 1981 and 2023.

Recommendations

The following recommendations emerged from the findings and conclusions of the study:

- i. That the federal government of Nigeria should maintain optimum level of domestic debt as it represents a veritable mechanism through which the much-desired accelerated and sustainable economic growth can be achieved.
- ii. That the federal government of Nigeria ensures that the proceeds of external debt are invested in related infrastructural facilities that can aid domestic savings and, invariably, economic growth and development that the country earnestly desires.
- iii. Policy makers should focus on maintaining exchange rate at low rate (single digit) and ensuring interest

rate stability and this can be achieved with low borrowing pattern.

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