Deficit Financing and Economic Growth: The Nigerian Experience

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Abstract
The study examined the effect of deficit finance on Nigeria economic growth. The main objective of the study is to empirically examine the effect of deficit financing on Nigeria's economic growth. The study used secondary data from CBN statistical bulletin on various issues as relevant for the period under study (1981-2016). Augmented Dickey Fuller (ADF) unit root test, Johanson Co-integration test and normality test were employed for the 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, linkages and wastages, the team will do this by holding everyone accountable for every kobo of government money spent.

Keywords; *Deficit financing, Domestic debt, External debt, Debt service, Real gross domestic product.*

1. Introduction

1.1 Background of the Study

Government, Military or Civilian believes that one way of solving social and economic problems is by increasing spending (Monogbe, Dornubari and Emah 2015). Government as an agent of the people requires revenue to provide education, employment, adequate health services, infrastructures and good roads but in the process of discharging this enormous responsibility the revenue and/or spending requirements of the government may sometimes outstrip its availability, hence the recourse to deficit financing so as to fill the gap between expenditure needs and revenue availability.

Nigeria's budget deficit experience dates back to 1961, and appeared justified during the immediate post-independence era, and since then till now 85% of Nigeria's budget runs in deficit. Okoro (2013) stated that 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. This ignites the need for Government to finance these projects either through internal borrowing, external borrowing or implementation of monetary instrument to increase the flow of fund in the economy. However there is a repel effect 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.
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). Budget deficit is a

phenomenon that emanated due to the imbalance in the budget of a country; the imbalance could either be a surplus or a deficit. This phenomenon seems to have come to stay in many economies of the world, in which Nigeria is not an exception. The culture however became seemingly entrenched overtime from 1970, the country ran into fiscal deficits and sustained public sector spending boom. The fiscal deficits of 1970 were justified on the grounds that it was largely for war reconstruction. Backed with huge wealth from oil, Nigeria embarked on wasteful spending, the mismanagement of the oil boom of the early 1970's led to the return of deficit financing in 1980. From 1982, the continuing decline in crude oil export earnings in 1983 once again led to the resumption of fiscal deficits which were financed through heavy borrowing after reducing the nation's reserves. The need for adequate public expenditure program and management has therefore become paramount, particularly at this period when the country is in recession and when various arms of government and the private sector are experiencing several financial constraints.

In view of the above discussion on deficit financing and economic growth further questions might be raised thus: Does deficit financial ''external and domestic debt'' significantly affect economic growth in Nigeria? If this is yes, to what extent or what is the nature of the relationship between deficit financing and economic growth in Nigeria? Does the Debt Service have effect on economic growth? Providing answers to these questions posed above, shall be the major focus of subsequent sections and by extension the entire work.

1.1.1 Trends of Deficit Financing in Nigeria

Under the fiscal system of Nigeria, the multi levels of government engage in fiscal management, preparing and implement annual budgets for the provision of services in their respective areas of jurisdiction (Anyanwu, 2003). 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 Nigeria government has been running huge deficits since the civil war years. The deficits as percentage of GDP have continued to be on the increase and one immediate result is the escalating public debt. Budget deficits have a deleterious effect on monetary policy. It has also been observed that large budget deficits cause increase in money growth and inflation (Levy, 1981; Egwaikhide, 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 N103,800.0 million, N221,000.0 million, N301,400.0 million, N2202,700.00 million and N142,000.0 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. But the low deficit recorded in 2001 (N103, 800.0 million) as compared with 1999 deficit of N285, 104.7 million was attributed to the increased revenue, particularly from the oil sector and the restraint on expenditure. The year 2001 recorded an increase in deficit of N221, 100.0 million as compared with deficit of 103,800.0 million in 2000. In 2002 deficit rose to N301, 400.0 million as compared with deficit of 2001 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 N202, 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 operations results a lower deficit of N172, 600.0 million as compared with the preceding year. This again was attributed to increase revenue in the oil sector and prudence in government expenditure. In 2005 fiscal deficit operations declined to N161, 400.0

million as compared with 2004 deficit of N172, 600.0 million. In 2006 fiscal deficit also declined to N101, 300.0 million as compared with the preceding year. These downward reductions in deficit operations in Nigeria were attributed to the stock of Nigeria's external debt fell significantly from US $20.5 billion in 2005 to US $3.5 billion in 2006. Consequently, the consolidated public debt at the end of December 2006 declined to N2, 204.7 billion or 12.1% of GDP, from N4, 221.0 billion or 28.3 and GDP in 2005. Currently Nigeria government recorded N1.90tr deficit financing in second quarter of 2016.

1.2 Statement 0f the Problem

Rapid and sustained output growth of the domestic economy of Nigeria has since the political independence in 1960 been of paramount importance to successive governments in the country. Consequently, governments have since implemented several national development plans and programs aimed at boosting productivity, as well as diversifying the domestic economic base. The goal of the various developmental plans has been the attainment of high levels of economic development that would translate into an improvement in the living standards of the populace and hence a reduction in poverty through an increase in the domestic output and the creation of employment and thereby the maintenance of a favorable balance of payments position (Ariyo, 2007 and Ojo and Akinbade, 2008).

The infrastructural and capital resources required for the attainment of those objectives have however been scarce. This has necessitated the interventions of the governments in the economy through the provision of the required huge capital outlay necessary for large scale production in heavy industries and for the provision of other infrastructure. Government interventions were made possible by the oil boom of the early 1970's when Nigeria earned unprecedented amounts of foreign exchange from the export of crude oil (Sikkan, 2008). Government expenditures thus grew rapidly with a similar growth in the bureaucracy. But the oil glut that followed meant that government revenues declined significantly (Akor, 2001). As government were reluctant in reducing the bloated expenditures that had resulted during the oil boom they were forced to seek alternative means of financing their expenditures. Governments then resorted to fiscal deficits.

Large deficits are common features of most developing countries, such as Nigeria. The economic consequences of such deficit are inflation, devaluation, deteriorating gross domestic product, fiscal adjustment, which constitute important element of the economic agenda. Deficits are often attributed to high government expenditure and caused by rising public spending over and above public revenue. My fact to this is that government has at its disposal various models of financing its spending. These includes: Taxation, printing of money and loans and grants. Borrowing from public is not a major source of funding deficits in developing countries since personal incomes are generally low, credit creation has often been used by developing countries as an alternative mode of financing. A major defect of this mode is however inflationary.

Fiscal deficits; a situation where current expenditure exceeds current expected income, this have become a recurring feature of public sector financing in Nigeria. The Keynesian demand-side economics emphasized the need for expansion in government expenditures even beyond current income, particularly during depressions when the economy suffers from an insufficiently of active demand, such as the Great Depression of 1929 to 1932 and more recently the 2008 Global financial and economic crisis. This will thereby increase the demand for productive output, resulting in unemployment being overcome (Anyanwu and Oaikhenan 2005, Ogboru, 2006). The policy of fiscal deficits has however posed challenges to the Nigeria

economy with regards to its effectiveness and the accumulation of debt, the justification from growth notwithstanding.

Research has shown that some studies have been done on deficit financing in Nigeria, however, a presentable framework for the dynamic changes on economic growth in Nigeria have not been completely dealt with in these studies. Probably due to the various estimation techniques that have been used for the studies. So the question of the extent to which deficit financing modes affects growth still lingers in the heart of many.

It is for this reason that this work has attempted to assess the effectiveness of deficit financing as a tool for the acceleration of economic growth in the Nigeria economy from 1981 to 2016, which covers a period of 35years. The time period incorporated is essential because it captures most policy reforms and changes over time, especially the economic meltdown of 2007/2008 and the current economic recession in the country.

1.3 Objective of the Study

The central purpose of this study is to empirically investigate the effect of deficit financing on the output of Gross domestic product (proxy for economic growth) in Nigeria over the period of 1981 to 2015. Thus the specific purpose includes;

1. To examine the effect of external debt on Nigerian economic growth.
2. To examine the effect of domestic debt on Nigerian economic growth.
3. To examine the effect of total Debt Service on Nigerian economic growth.

1.4 Research Questions

In line with above stated specific objectives, this study is guided by the following research questions;

1. To what extent has external debt affected economic growth in Nigeria?
2. To what extent does domestic debt affect economic growth in Nigeria?
3. How significant is the effect of Debt Service on economic growth in Nigeria?

1.5 Research Hypotheses

The study formulated three hypotheses in their null form as a guide to achieve the objectives of the study:

Ho_1: External debt has no significant effect on Nigerian economic growth.
Ho_2: Domestic debt has no significant effect on Nigerian economic growth.
Ho_3: Debt service does not have any significant effect on Nigerian economic growth.

1.6 Significance of the study

The importance of this study cannot be over emphasized because every sector of the economy stands to benefit one or two things from the researchers work. The major people who will benefit from this work are:

1. POLICY MAKERS: the study stands to enlighten them on the ways of finding the best policy to use when it comes to the issue of the Nations deficit financing techniques.
2. INVESTORS: the study will help them to realize the actual state of the economy, especially when the country's budget is at deficit.
3. RESEARCHERS: they will find it rewarding as it will add to the rich collection of work in available literatures due to the expansion of years covered and modification of model.
4. ECONOMY: the study helps to reveal the stand of the economy in the face of deficit budgeting system.

1.7 Limitations of the Study

The accuracy of this research work has been hindered by some factors such as:

- Authenticity of data:- although the source of the data used is assumed authentic enough but the corrupt state of the country gives room for alterations of data in different parastatals of the country to suit selfish aims, so the result may not be completely accurate, which gives room for further study.

Review of Related Literature

2.1 Conceptual Review

2.1.1 Deficit Financing

Deficit is generally defined in terms of loan financing and drawing down of cash balances Nwogugu (2005). It connotes the difference between the budget receipts and budget expenditures Financed by withdrawal of cash balance and borrowing from public. Fiscal deficit simply refers to the excess of the public sector's spending over its revenue (World Bank, 2005). According to Jhigan (2002), the phrase deficit financing is used to mean any public expenditure that is in excess of current revenues. In advance countries, deficit financing is used to do describe the financing of a deliberately created up between public revenue and public expenditure or a budgetary deficit. The term deficit financing is used to denote the direct addition to gross national expenditure through budget deficits whether the deficits are on the revenue or capital account.

CBN (2013) define deficit financing as a practice in which government spends more than it receives as revenue and the difference being made up by borrowing more money into the economy than it takes out by taxation with the expectation that increased business activities will bring enough additional revenue to cover the shortfall. Deficit financing, however, may also result from government inefficiency, reflecting widespread tax evasion or wasteful spending rather than the operation of a planned countercyclical policy.

The essence of such a policy lies in the government spending in excess of revenue it receives in the form of taxes, earning of the state enterprises, loans from the public deposits and funds and then miscellaneous sources.

Fischer and Esterly (1990) identify four ways of financing the deficit:

a. Printing money (ways and means)
b. External borrowing
c. The use of foreign reserves
d. Domestic borrowing

The major methods of financing the budget deficit includes; monetary financing and debt financing. The International Monetary Fund (2009) and CBN (2010) agree that economic growth is the increase in the amount of goods and service produced in an economy over time. It is conventionally measured as the percent rate of increase in Real Gross Domestic Product (RGDP).

2.1.2 External Debt

The portion of a country's debt that was borrowed from foreign lenders including commercial banks, governments or international financial institutions is external debt. These loans including interest, is usually be paid in the currency in which the loan was made. In order to earn the needed currency, the borrowing country may sell and export goods to the lender's country.

External debt may be defined as debt owed to non-residents repayable in terms of foreign currency, food or service (World Bank, 2004). Nigeria's external debts are basically from

multilateral agencies, Paris Club of Creditors, London Club of Creditors, Promissory Note Holders, Bilateral and Private Sector Creditors and other sources (Jhingan, 2004, and Salawu, 2005).

2.1.3 Domestic Debt

Odozi (1996), in his opinion sees domestic debt as the gross liability of Government, and properly considered should include Federal, State and Local governments transfer obligations to the citizens and corporate firms within the country. Consequently, the Central Bank of Nigeria (CBN) as banker and financial adviser to the Federal Government is charged with the responsibility for managing the domestic Public debt.

(Alison et al 2003) reveal three principal reasons often advanced for government domestic debt. The first is for budget deficit financing, second, is for implementing monetary policy and the third is to develop instruments so as to deepen the financial market.

Domestic debts are debts instrument issues by the federal government and denominated in local currency. State and local government can also issue debt instrument, but debt instrument currently in issue consists of Nigerian treasury bills, federal government development stocks and treasury bonds. Out of these treasury bills and development stocks are marketable and negotiable, while treasury bonds; ways and means advances are not marketable but held solely by the central bank of Nigeria, (Adafu et al 2010).

2.1.4 Debt Service

Debt servicing is the ability of a debtor nation to continue to repay the principal and interest components of an outstanding loan as and when due. Debt service is the cash that is required to cover the repayment of interest and principal on a debt for a particular period. If an individual is taking out a mortgage or a student loan, the borrower needs to calculate the annual debt service required on each loan, and, in the same way, companies must meet debt service requirements for loans and bonds issued to the public. The ability to service debt is a factor when a company needs to raise additional capital to operate the business.

The amount of money required to make payments on the principal and interest on outstanding loans, the intereston bonds, or the principal of maturing bonds. An individual or company u nable to make such payments is said to be"unable to service one's debt."An example of debt s ervice is a monthly student loan payment. Farlex Financial Dictionary (2012).

2.1.5 Economic Growth

Lipsey (1986) Defined economic growth as the positive trend in the nation's total output overlong period of time. This implies a sustained increase in Gross Domestic Product (GDP) for a long time. Schiller (1999) opined that economic growth is an increase in output (real GDP), an expansion in product possibility curve. Schiller (1999) view was not different from that of Dolan and Lindsey (1991) who sees economic growth as most frequently expressed in terms of increase in Gross Domestic Product (GDP), a measure of the economy's total output of goods and services. This GDP as a measure of economic growth, like any other economic quantitative must be expressed in real terms. That is, it must be adjusted for the effects of inflations as for it to provide a meaningful measure of growth overtime.

Economic growth is related to a quantitative sustained increase in the country's per capita output or income accompanied by expansion in its labour force, consumption, capita and volume of trade (Jhingan, 2008). According to Aigbokhan (1995), Economic growth means an increase in the average rate of output produce per person usually measured on a per annum basic. It is also the rate of change in national output or income in a given period. Economic growth is the increase of per capital gross domestic product (GDP) or other measure of aggregate income. It is often measured as the rate of change in real GDP. Economic growth

refers only to the quantity of goods and services produced. Godwin (2007) defines economic growth as an increase in real gross domestic product (GDP). That is, gross domestic product adjusted for inflation. The growth can either be positive or negative. Negative growth can be referred to by saying that the economy is shrinking. This is characterized with economic recession and economic depression. Ullah and Rauf (2013) noted that whenever there is increase in real GDP of a country it will boosts up the overall output and we called it economic growth. The economic growth is helpful to increase the incomes of the society, help the nation to bring the unemployment at low level and also helpful in the deliveries of public services.

2.2 Theoretical Review

- **The Neo-Classical View:** The component of revenue deficit is deficits financing which implies a reduction in government saving or an increase in government dis-saving. In neo-classical perspective, this will have a detrimental effect on growth if the reduction in government saving is not fully offset by rise in private saving, thereby resulting in a fall in the overall saving rate. This, apart from putting pressure on the interest rate, will adversely affect growth. The neo-classical economist assumes that markets clear so that full employment of recourses is attained. In this paradigm fiscal deficits raise lifetime consumption by shifting taxes to the future generation. If economic resources are fully employed, increased consumption necessarily implies decreased saving in a closed economy. In an open economy, real interest rates and investment may remain unaffected, but the fall in national saving is financed by higher extend borrowing accompanied by an appreciation of the domestic currency and fall in exports. In both cases, net national saving falls and consumption rises accompanied by some combination by fall in investment and exports.

- **The Keynesian View of Fiscal Deficit:** The Keynesian view in the context of the existence of some unemployed resources, envisages that an increase in autonomous government expenditure, whether investment or consumption, financed by borrowing would cause output to expand through a multiplier process. Subsequent elaborations of the Keynesian paradigm envisage that the multiplier-based expansion of output leads to a rise in the demand for money, and if money supply is fixed and deficit is bond financed, interest rates would rise partially offsetting the multiplier effect. Keynesian economics, according to Okpanachi and Abimiku (2007) an increase in government spending enhances domestic output. Deficit spending by the government stimulates the economy in the short-run by making households feel wealthier.

  The Keynesian recognize the possibilities of government spending crowding out private (investment) spending through increased cost of credit (interest rate). Hence the recommendation by Musgrave (Okpanachi and Abimiku, 2007) that fiscal deficit should be implemented only during a depression when interest rates are likely to be unresponsive in order to avoid the damping effect of rising interest rates on private investment expenditure.

  The Keynesian further posit that fiscal deficits could have a negative impact on the external sector, reflected through trade deficit, but only if the domestic economy is unable to absorb the additional liquidity through an expansion in output.

- **The Ricardian Equivalent Perspective:** In the perspective of Ricardian, fiscal deficits are viewed as neutral in terms of their impact on growth. The financing of budgets by deficit amounts only to postponement of taxes. The deficit in any current period is

exactly equal to the present value of future taxation that is required to pay off the increment to debt resulting from the deficit. In other words, government spending must be paid for, whether now or later, and the present value of spending must be equal to the present value of tax and non-tax revenues. Fiscal deficits are a useful device for smoothening the impact of revenue shocks or for meeting the requirements of lumpy expenditures, the financing of which through taxes may be spread over a period of time. Ricardian equivalence requires the assumption that individuals in the economy are foresighted, they have discount rates that are equal to government discount rates on the spending and they have extremely long time horizons for evaluating the present value of future taxes.

2.4 Empirical Review of Literature

A number of studies have been conducted to investigate the relationship between deficits financing and economic growth. Eze and Ogiji (2016) investigated the impact of deficit financing on economic stability in Nigeria, using Ordinary Least Square (OLS) estimation technique. The result showed that deficit finance is positively related to economic growth.

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 irrespective of the source of financing have no significant impact on inflation in Nigeria and budget deficit financed from external loans is negatively but insignificantly related to economic growth.

The study conducted by Adesuyi and Falowo (2013), to asses and investigate the impact fiscal deficit has on the economy given some variables, using Ordinary Least Square (OLS) estimation technique. The result showed that fiscal deficit has made a significant contribution to the GDP and economic growth of the country.

In the study of Keho (2010), used time series data to investigate the casual relationship between budget deficit financing and economic growth in the member countries of WestAfrican and monetary union. The study made use of Granger casualty test and the empirical evidence showed mixed results. In three cases, the study did not find any casualty between budget deficit and growth. In the remaining four countries, deficits have adverse effect on economic growth.

Eze and Nwambeke (2015) examined the effect of deficit financing on unemployment rate in Nigeria using Ordinary Least Square (OLS) estimation technique. The study found that deficit financing is positively related to unemployment rate indicating that sound policies are needed to achieve economic stability in Nigeria through reduction of the level of unemployment rate in Nigeria.

Onyeiwe (2012) investigated the relationship between domestic debt and the growth of Nigeria economy. Parsimonious model, error correlation model and ordinary least square (OLS) were used for analysis. The study indicates that the level of domestic debt in Nigeria has negative effect on economic growth.

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 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.

Edame and Okoi (2015) examined the impact of fiscal deficit on economic growth in Nigeria during the democratic and military regime using Chow test. It was found that there is a significant difference between the impacts of Fiscal deficits on economic growth in the two regimes.

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.

Duokit and Ekong (2016) examined the nature of relationship between budget deficit and economic growth in Sierra Leone using Ordinary Least Square (OLS) estimation technique. The analysis showed a positive relationship existing between budget deficit and economic growth in Sierra Leone.

Osuala and Ebieri (2014) empirically analyzed the impact of fiscal policy on economic growth in Nigeria 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 granger casualty test. 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 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 deficit finance and the Nigeria economic performance from 1981 – 2014. Econometrics model were used to carry out the following 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 granger 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 finance on Nigerian economic growth using the Ordinary Least Square (OLS) estimation technique. Their findings revealed that deficit financing is statistically significant and positively related to economic growth in Nigeria.

2.5 Gap in Literature

With the divergent estimation techniques and results from different studies on the assessment of the impact of deficits financing on economic growth in view, the pertinent question still remains whether the persistent deficits have effect on Nigerian's economic growth between 1981 and 2015.

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 periods captured to 2016 (i.e the most recent data available).

3. Research Methodology

3.1 Research Design

The researchers employed an expo-facto research design as the data been used are historical in nature. The data for the study is collected from the CBN statistically bulletin vol. 26 (2016). This research also intended the period of study from 1981 to 2016.

3.2 Model Estimation Techniques

The analysis is conducted electronically with the use of E-Views 8.1, using econometric tools such as Ordinary Least Square (OLS) to estimate the parameters of our regression models combined with co-integration technique to confirm the long run relationship among the modeled variables, the Augmented Dickey Fuller (ADF) unit root test to hedge against spurious regression.

3.2 Model Specification

In the light of the objectives and hypotheses raised above, a model is specified to examine the synergy of deficit financing on Nigeria's economic growth, the study adopted the model version of Onuorah A.C and Ogbonna G.N (2013). Their model is stated thus:

RGDP=f (DD, EXD) ----------(1)

There was a slight modification of this model with the introduction of a control variable Debt Service (DS), and the function equation became

RGDP=f (DD, EXD, DS) ----------(2)

This model was further broken down into simpler mode to enhance the effectiveness of the result and it goes thus:

RGDP=f (DD)----------(3)

RGDP=f (EXD)----------(4)

RGDP=f (DS)----------(5)

In econometrics, equations (3, 4 and 5) above are insufficient resulting from absence of error term. Hence, we express the above equations in a functional relationship using linear regression model by introducing constant and error term, hence we have;

$RGDP= \beta_0+ \beta_1 DD+\mu$----------(6)

$RGDP=\beta_0+\beta_1 EXD+\mu$----------(7)

$RGDP=\beta_0+\beta_1 DS+\mu$----------(8)

The variables under research were later normalized which will lead us to log form due to positive skewness of the employed data.

$LOG(RGDP)= \beta_0+ \beta_1 LOG(DD)+\mu$ ----------(9)

$LOG(RGDP)= \beta_0+ \beta_1 LOG(EXD)+\mu$----------(10)

$LOG(RGDP)= \beta_0 + \beta_1 LOG(DS)+\mu$----------(11)

Where:
RGDP = Real gross domestic product
DD = Domestic debt
EXD = External debt
DS= Debt Service
β_0= Constant
β_1, β_2, β_3 = Estimation parameters
μ = Error term

3.5 Apriori Expectation

β_1, β_2, β_3> 0 judging by the literature underpinning, we expect a direct and positive flow among the employed variables Real Gross Domestic Product (RGDP) and its dependent counterpart that is Domestic Debt ((DD), External Debt (EXD) and Debt Service (DS).

4 Data Analysis and Discussion of Findings

The table below presents the raw data used for analysis in the study, which was gotten from CBN's statistical bulletin volume 27, 2016.

Where: RGDP=> Real Gross Domestic Product
DD => Domestic Debt
EXD=> External Debt
DS=> Debt Service

TABLE 4.1 Data Presentation of Study Variables

YEAR	R GDP	DD	EXD	DS
1981	15258	11.19	2.33	1,790,651,000
1982	14985.08	15.01	8.82	2,090,346,000
1983	13849.73	22.22	10.58	2,565,377,000
1984	13779.26	25.67	14.81	4,067,500,000
1985	14953.91	27.95	17.3	4,428,669,000
1986	15237.99	28.44	41.45	2,050,757,000
1987	15263.93	36.79	100.79	1,106,408,000
1988	16215.37	47.03	133.96	2,210,434,000
1989	17294.68	47.05	240.39	2,117,490,000
1990	19305.63	84.09	298.61	3,335,543,000
1991	19199.06	116.2	328.45	2,944,753,000
1992	19620.19	177.96	544.26	2,414,572,000
1993	19927.99	273.84	633.14	1,490,998,000
1994	19979.12	407.58	648.81	1,871,671,000
1995	20353.2	477.73	716.87	18,032,904,000
1996	21177.92	419.98	617.32	2,228,630,000
1997	21789.1	501.75	595.93	1,415,896,000
1998	22332.87	560.83	633.02	1,331,989,000
1999	22449.41	794.81	2577.37	1,072,055,000
2000	23688.28	898.25	3097.38	1,854,816,000

2001	25267.54	1016.97	3176.29	2,524,307,000
2002	28957.71	1166	3932.88	1,476,880,000
2003	31709.45	1329.68	4478.33	1,631,344,000
2004	35020.55	1370.33	4890.27	1,710,307,000
2005	37474.95	1525.91	2695.07	8,807,116,000
2006	39995.5	1753.26	451.46	6,710,138,000
2007	42922.41	2169.64	438.89	1.010,498,000
2008	46012.52	2320.31	523.25	669.447,000
2009	49856.1	3228.03	590.44	732.992,000
2010	54612.26	4551.82	689.84	859,138,000
2011	57511.04	5622.84	896.85	503,185,000
2012	59929.89	6537.54	1026.9	407,250,000
2013	63218.72	7118.98	1373.58	620,737,000
2014	67152.79	7904.02	1631.52	702,825,000
2015	69023.93	8837	2111.53	916,312.000

Source: *CBN statistical bulletin vol. 26 (Authors compilation).*

Table 4.2 Descriptive Statistics

	LRGDP	LDD	LEXD	LDS
Mean	10.19444	6.090580	6.017841	21.28868
Median	10.01381	6.329418	6.425388	21.30585
Maximum	11.14221	9.086703	8.495003	23.61546
Minimum	9.530920	2.415021	0.845868	19.82494
Std. Dev.	0.519951	2.035500	1.927017	0.801444
Skewness	0.492623	-0.277449	-1.034399	0.663557
Kurtosis	1.862178	1.847617	3.374342	3.802045
Jarque-Bera	3.303633	2.385687	6.445913	3.506575
Probability	0.191701	0.303357	0.039837	0.173204
Sum	356.8054	213.1703	210.6244	745.1039
Sum Sq. Dev.	9.191874	140.8708	126.2555	21.83864
Observations	35	35	35	35

SOURCE: Extractions from E-views *8.0 Output Generation*

Table 4.2 revealed the nature of the independent variables on the model. It shows that all the independent variables have high minimum and maximum values of the series. The table shows that the Debt Service (DS) maintains the highest value 23.61546 against the Domestic Debt (DD) 9.086703and External Debt (EXD) 8.495003. Furthermore, Debt Service (DS) exhibits the lowest standard deviation which shows that the deviations from the mean value are small or compared to that of the External Debt (EXD) and Domestic Debt (DD). Given that the median of Domestic Debt (DD), External Debt (EXD) and Debt Service (DS)have greater median values than the mean values this shows that the data series were normally distributed are and positively skewed in nature and could be used to predict the Nigeria deficit condition.

4.3 Unit Root Tests

Standard econometric methodologies assume stationarity in the time series while they are in the real sense non-stationary. Hence the usual statistical tests are likely to be inappropriate and the inferences drawn are likely to be erroneous and misleading (Dauda, 2010). The essence of testing for unit root is because if the series is not stationary then all the results from the classical linear regression analysis are not valid.

Considering the underlying shocks in the time series variable and also some shock which could be found in the error terms, we therefore intend to capture the stationary of the employed variable. Hence, this will help in forecasting and predicting a great possible effect of the shock, while non-stationary data are not suitable for long run test.

Table4.3: Results of Unit Roots Tests using Augmented Dickey Fuller (ADF)

Variables	ADF-Statistic	Critical Value			Order of Integration
		1%	5%	10%	
LOG(RGDP)	-7.539268	-3.653730	-2.957110	-2.617434	1(2)
LOG(DD)	-8.839568	-3.653730	-2.957110	-2.617434	1(2)
LOG(EXD)	-7.740176	-3.653730	-2.957110	-2.617434	1(2)
LOG(DS)	-6.225944	-3.679322	-2.967767	-2.622989	1(2)

Source: *Author's Extractions from E-views 8.0 Output Generation*

The result of the ADF shows that the variable at their level are not stationary but, become stationary after the second differencing. Hence, the series are all intergraded series in order of 1 (2) indicating that there are all stationary at second differencing. Since the prerequisite of co-integration is the integration of all variables at same level, this parameter therefore leads to co-integration of employed variables. Hence, this justifies that our model is no longer spurious as previously specified in the ordinary lease square i.e if the value of the R2 is greater than the Durbin-Watson, the model is spurious but, by the reason of the stationary of the residual variable at second differencing, the model is no longer spurious. And as such we proceed to test for long run relationship.

a) Co-Integration Test

Having tested the stationarity of each time series, the next step is to test for co integration between the variables. The Johansen procedure is used to identify long run relationship among the variables. Co integration of the dependent variable with the independent variable forms a dynamic basis through which forecast can be made.

Table 4.4 (a): co-integration test for model 1

Unrestricted Cointegration Rank Test (Trace)

Hypothesized No. of CE(s)	Eigenvalue	Trace Statistic	0.05 Critical Value	Prob.**
None *	0.700253	40.95569	15.49471	0.0000
At most 1	0.109823	3.606388	3.841466	0.0576

Trace test indicates 1 cointegrating eqn(s) at the 0.05 level
* denotes rejection of the hypothesis at the 0.05 level
**MacKinnon-Haug-Michelis (1999) p-values

Unrestricted Cointegration Rank Test (Maximum Eigenvalue)

Hypothesized No. of CE(s)	Eigenvalue	Max-Eigen Statistic	0.05 Critical Value	Prob.**
None *	0.700253	37.34930	14.26460	0.0000
At most 1	0.109823	3.606388	3.841466	0.0576

Max-eigenvalue test indicates 1 cointegrating eqn(s) at the 0.05 level
* denotes rejection of the hypothesis at the 0.05 level
**MacKinnon-Haug-Michelis (1999) p-values

Source: *Extractions from E-views 8.0 Output Generation*

The result of the co integration test unveils that there exist one co-integrated equation. Hence according to the trace statistic, the overall variables are co-integrated meaning that there is a long run association between the two variables that is in the long run, the two variables move together in a direction.

Table 4.4 (b): co-integration test for model 2

Sample (adjusted): 1986 2016
Included observations: 31 after adjustments
Trend assumption: Linear deterministic trend
Series: D(LRGDP,3) LEXD
Lags interval (in first differences): 1 to 1

Unrestricted Cointegration Rank Test (Trace)

Hypothesized No. of CE(s)	Eigenvalue	Trace Statistic	0.05 Critical Value	Prob.**
None *	0.692654	42.85177	15.49471	0.0000
At most 1 *	0.183342	6.278579	3.841466	0.0122

Trace test indicates 2 cointegrating eqn(s) at the 0.05 level
* denotes rejection of the hypothesis at the 0.05 level
**MacKinnon-Haug-Michelis (1999) p-values

Unrestricted Cointegration Rank Test (Maximum Eigenvalue)

Hypothesized No. of CE(s)	Eigenvalue	Max-Eigen Statistic	0.05 Critical Value	Prob.**
None *	0.692654	36.57319	14.26460	0.0000
At most 1 *	0.183342	6.278579	3.841466	0.0122

Max-eigenvalue test indicates 2 cointegrating eqn(s) at the 0.05 level
* denotes rejection of the hypothesis at the 0.05 level
Source: *Author's Extractions from E-views 8.0 Output Generation*

The result of the co integration test unveils that there exist, one co integrated equation. Hence according to the trace statistic, the overall variables are co-integrated meaning that there is a long run association between the two variables that is in the long run, the two variables move together in a direction.

Table 4.4 (c): co-integration test for model 3
Sample (adjusted): 1986 2016
Included observations: 31 after adjustments
Trend assumption: Linear deterministic trend
Series: D(LRGDP,3) LDS
Lags interval (in first differences): 1 to 1

Unrestricted Cointegration Rank Test (Trace)

Hypothesized No. of CE(s)	Eigenvalue	Trace Statistic	0.05 Critical Value	Prob.**
None *	0.708197	42.29610	15.49471	0.0000
At most 1 *	0.124285	4.114142	3.841466	0.0425

Trace test indicates 2 cointegrating eqn(s) at the 0.05 level
* denotes rejection of the hypothesis at the 0.05 level
**MacKinnon-Haug-Michelis (1999) p-values

Unrestricted Cointegration Rank Test (Maximum Eigenvalue)

Hypothesized No. of CE(s)	Eigenvalue	Max-Eigen Statistic	0.05 Critical Value	Prob.**
None *	0.708197	38.18195	14.26460	0.0000
At most 1 *	0.124285	4.114142	3.841466	0.0425

Max-eigenvalue test indicates 2 cointegrating eqn(s) at the 0.05 level
* denotes rejection of the hypothesis at the 0.05 level
**MacKinnon-Haug-Michelis (1999) p-values

Source: *Extractions from E-views 8.0 Output Generation*

The result of the co integration test unveils that there exist one co-integrated equation. Hence according to the trace statistic, the overall variables are co-integrated meaning that there is a long run association between the two variables that is in the long run, the two variables move together in a direction.

4.5. Ordinary Least Square output (log linear output regression)

Table 4.5 (a): Regression output for model 1

Dependent Variable: LRGDP
Method: Least Squares
Date: 07/24/17 Time: 21:34
Sample: 1981 2016
Included observations: 36

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	8.722251	0.114377	76.25892	0.0000
LDD	0.244680	0.017768	13.77052	0.0000

R-squared	0.847961	Mean dependent var	10.22035
Adjusted R-squared	0.843490	S.D. dependent var	0.535522
S.E. of regression	0.211860	Akaike info criterion	-0.211829
Sum squared resid	1.526080	Schwarz criterion	-0.123855
Log likelihood	5.812916	Hannan-Quinn criter.	-0.181124
F-statistic	189.6272	Durbin-Watson stat	0.208490
Prob(F-statistic)	0.000000		

Source: *Extractions from E-views 8.0 Output Generation*

The output of the regression analysis unveils that the coefficient of the constant (C) Of 8.722251, which implies that if all other variable is held constant all things being equal, criterion variable is expected to be increased on the average by about 8.72 unit. The result shows that the relationship that exists between Domestic Debt (DD) and Real Gross Domestic Product is positive. This implies that increase in the domestic debt in the economy when the government is faced with deficit strongly influence the growth of the Nigeria economy. This is to the extent to which 1% increase in the LDD in the economy will bring about 24% rises in RGDP all things been equal.

The adjusted R2 shows a high predicative ability that about 84% of the variation in the dependent variable is captured and explained by the explanatory variable in the model. This however shows the global utility of the model.

Table 4.5 (b): Regression output for model 2

Dependent Variable: LRGDP
Method: Least Squares
Date: 07/24/17 Time: 21:39
Sample: 1981 2016
Included observations: 36

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	9.145655	0.230831	39.62048	0.0000
LEXD	0.176466	0.036147	4.881832	0.0000

R-squared	0.412093	Mean dependent var	10.22035
Adjusted R-squared	0.394802	S.D. dependent var	0.535522
S.E. of regression	0.416607	Akaike info criterion	1.140605
Sum squared resid	5.901080	Schwarz criterion	1.228578
Log likelihood	-18.53088	Hannan-Quinn criter.	1.171310
F-statistic	23.83229	Durbin-Watson stat	0.076741
Prob(F-statistic)	0.000024		

Source: *Extractions from E-views 8.0 Output Generation*

The output of the regression analysis unveils that the coefficient of the constant (C) Of 9.145655, this implies that if all other variable is held constant all things being equal, criterion variable is expected to be increased on the average by about 9.15 units. The result shows that the relationship that exists between External Debt (EXD) and Real Gross Domestic Product is positive. This implies that increase in the external debt in the economy when the government is faced with deficit strongly influence the growth of the Nigeria economy. This is to the extent to which 1% increase in the LEXD in the economy will bring about 18% rises in RGDP all things been equal.

The adjusted R2 shows a high predicative ability that about 39.5% of the variation in the dependent variable is captured and explained by the explanatory variable in the model. This however shows the global utility of the model.

Table 4.5 (c): Regression output for model 3
Dependent Variable: LRGDP
Method: Least Squares
Date: 07/24/17 Time: 21:44
Sample: 1981 2016
Included observations: 36

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	10.13471	1.171622	8.650152	0.0000
LDS	0.003976	0.054234	0.073310	0.9420

R-squared	0.000158	Mean dependent var	10.22035
Adjusted R-squared	-0.029249	S.D. dependent var	0.535522
S.E. of regression	0.543297	Akaike info criterion	1.671633
Sum squared resid	10.03585	Schwarz criterion	1.759606
Log likelihood	-28.08940	Hannan-Quinn criter.	1.702338
F-statistic	0.005374	Durbin-Watson stat	0.012961
Prob(F-statistic)	0.941989		

Source: *Extractions from E-views 8.0 Output Generation*

The output of the regression analysis unveils that the coefficient of the constant (C) is 10.13471, which implies that if all other variable is held constant all thing being equal, criterion variable is expected to be increased on the average by about 10.13 units. The result shows that the relationship that exists between Debt Service (DS) and Real Gross Domestic Product is positive. This implies that increase in Debt Service in the economy when the government is faced with deficit strongly influence the growth of the Nigeria economy. This is to the extent to which 1% increase in the DS in the economy will bring about 0.03% rises in RGDP all things been equal.

The adjusted R2 shows a high predicative ability that about -0.29% of the variation in the dependent variable is captured and explained by the explanatory variable in the model. This however shows the global utility of the model.

4.6 Test of Hypothesis

At the initial stage of this research, precisely in chapter one, some hypotheses were formulated to help in achieving the objectives of the study. These hypotheses are restated below as follows:

Ho_1*:* Domestic debt has no significant effect on Nigeria's economic growth.
Ho_2: External debt has no significant effect on Nigeria's economic growth.
Ho_3: Debt service has no significant effect on Nigeria's economic growth.

Table 4.5: Test of Hypothesis

Variables	**Coefficient**	**p-value**	**Observation**	**Decision**
LOG(DD)	0.244680	0.0000	*p-value<0.05*	*Reject null*
LOG(EXD)	0.176466	0.0000	*p-value<0.05*	*Reject null*
LOG(DS)	0.003976	0.9420	*p-value>0.05*	*Accept null*

Source: *Author's Extractions from E-views 8.0 Output Generation*

- ***Ho$_1$**: Domestic debt has no significant effect on Nigeria's economic growth.*

The coefficient value of Domestic Debt is 0.244680 with the p-value of 0.0000 which is less than 5% level of significant; we accept the alternative hypothesis and conclude that, Domestic Debt has a significant positive effect on Nigeria's economic growth.

- ***Ho$_2$**: External debt has no significant effect on Nigeria's economic growth.*

The coefficient value of External Debt is 0.176466 and the p-value is 0.0000, it is statistically significance at 5% level. The research rejects the null hypothesis and accepts the alternative hypothesis. Therefore, External Debt has a positive significant effect on Nigeria's economic growth.

- ***Ho$_3$**: Debt Service has no significant effect on Nigeria's economic growth.*

The t-statistics value of Debt Service is 0.003976 with the p-value of 0.9420; it is statistically insignificant at 5% level. The research accepts the null hypothesis and concludes that Debt Service has no significant effect on Nigeria's economic growth.

4.7 Discussion of Results

i. From the results obtained in table 4.5(a) above, domestic debt revealed positive and statistically significant with p-value of 0.0000. This is because the p-value of domestic debt is less than 5% level of significance. This result means that domestic debt has a positive significant effect on Nigeria's economic growth.

ii. The external debt revealed positive and statistically significant because the p-value is less than 5% level of significance. The research rejects the null hypothesis and accepts the alternative hypothesis. Therefore, external debt has a positive significant effect on Nigeria's economic growth.

iii. However, debt service has no significant worth toward real GDP which specifies that debt servicing does not affect economic growth in anyway

iv. Verifying further for the strength of the above results, it is obvious from the coefficient of multiple determination (R^2) that the models has a good fit as the independent variables were found to jointly explain 84% and 39% of the movement in the dependent variables.

v. Similarly, the results showed that the value of F-statistics is 189.6272 and 23.83229, while its associated Prob (F-statistics) value is 0.000000 and 0.000024 for Domestic Debt and External Debt respectively. This demonstrated that the joint influence of the explanatory variables such as domestic debt and that of external debt are statistically significant.

vi. The Durbin-Watson statistics is employed here to test for the absence of autocorrelation in the model. The DW statistic which is a measure of auto correlation shows that the error correction model is free from the problem of serial correlation at 0.2 % and 0.1% level of significance. As a result of this, our model estimated can be confidently relied upon for making inferences.

5 Summary of Finding, Conclusion and Recommendations

5.1 Summary of Findings

The study investigates the effect of deficit financing on Nigeria's economic growth. It adopts a time-series data spanning 1981 to 2016 on variables for the study. The estimation which started with ADF test reveals that all the variables were stationary at first difference, and this led us to conducting a co – integration test which indicated the existence of at most four co – integrating equation in the model. This however implies that there is a long run relationship between the variables in the model.

In light of the test being carried out, the following are the key findings to the study:

1. The result of the Augmented Dickey Fuller Test (ADF) indicates that the data achieves stationary after the second differencing at the order of 1(2). The co-integration result reveals a long run relationship exist among the variables and its dependent counterpart.
2. Domestic debt (DD) has a significant positive effect on economic growth in Nigeria.
3. Findings reveal that deficit financing through External Debt (EXD) borrowing has a significantly positive effect on Nigeria's economic growth.
4. Debt Service (DS) has no significant effect on Nigeria's economic growth.

5.2 Conclusion

In conclusion, the study which was aimed at studying the effect of deficit finance on Nigerian economic growth, found that deficit finance has a significant positive effect on the nations economic growth, in line with the apriori expectation and the findings of some researchers. Therefore, the study infers a significant relationship between deficit finance and economic growth in Nigeria. However, suffice to say that the various means of financing budget deficit such as external debt, domestic debt etc. have to be properly managed in order to achieve economic development of the nation in the long run.

5.3 Recommendations

a. Government should setup monitoring team that will make sure that the budget is well carefully implemented and as well as loan borrowed in other to reduce corruption and wastage.

b. Government must put a stop to unproductive loans, wasteful spending and unregulated money supply with government putting into structure strategies designed to achieving increased and sustained productivity in economic sectors.

c. Government and policy makers should carefully study the present state of the economy before deciding on measures through which deficit will be financed.

d. Finally, government should maintain optimum level of external debt as it is one of the mechanisms for economic growth but to an optimum level and that all external debt should be effectively utilized for the purpose for which it was obtained so as to promote economic growth.

5.4 Contributions to knowledge

The study has been able to contribute to knowledge in no little measure, and the contributions are believed to be significant. Some of the contributions of the study to knowledge are enumerated below:

1. The study extended its scope beyond those of earlier studies by modifying models that were used earlier through the addition of Debt service and increasing the number of models to 3.
2. It filled knowledge gap by extending the period captured to the year 2016 (i.e the most recent available data at the time of the analysis).

3. It also helps investors to realize that the nation's economy is fit even when the budget is running at a deficit.
4. And lastly, it adds to the rich collection of works in literature.

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