EFFECT OF FISCAL DEFICIT FINANCING ON NIGERIA'S ECONOMIC GROWTH (1980-2018)

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Abstract: For several years in the past, the Nigerian economy was characterized by a high level of external and internal debts. Contrary to expectations, the country's economy grew sluggishly. This necessitated the re- examination of the effect of fiscal deficit financing on the economic growth of Nigeria. The study period covers from 1980 to 2018. Specifically, the study sought to ascertain the effects of domestic borrowing, external borrowing, way and means and the use of foreign reserves on the real gross domestic product of Nigeria. The research employed the ex - post facto research design and utilized secondary data sourced from Central Bank of Nigeria's statistical bulletins of the relevant years. The empirical results showed that internal borrowing has positive and significant effect on real GDP, external borrowing has negative and non-significant effect on real GDP, the way and means has positive and non-significant effect on real GDP while external reserve has negative and significant effect on real GDP. This weak response can be tied to corrupt practices and the low infrastructural development in Nigeria. Aligning this finding to the situation at hand, the conclusion is that the Nigerian economy has been characterized by continuous fiscal deficits that have not positively contributed to economic growth. The study recommends that, while providing for a sound borrowing program, the federal government should spend borrowed funds on projects that have the capacity to create high returns in the future. Future studies can be focused on ascertaining how the established relationships can be complemented with other policy variables in order to bring about some positive results on economic growth.

1. INTRODUCTION

Since the 1980s, Nigeria's fiscal policy has lacked the desirable characteristics required for its effectiveness as a tool of macroeconomic management. The country's fiscal policy has not always been consistent with macroeconomic policies. Adeoye (2006) observes that the expenditures of the Nigerian government have continued to be highly elastic with respect to revenue developments and that fiscal deficits has been rising absolutely and relatively.

The debt crisis in Nigeria was created following the Nigeria/ Biafra War. Price volatility in the crude oil market increased uncertainty just as it amplified financial and economic problems for the country. The aftermath was that the vast majority of Nigerian budgets became in the red (Momodu & Monogbe, 2017). From

1980 to 2019, governments in Nigeria relied heavily on debt financing to fund budget deficits (CBN, 2018). Using fiscal deficits to finance economic expansion has continued to be an issue for public debate. The impact of fiscal deficits has remained relevant to date. It has been observed that countries which had notable economic development reduced their debt levels significantly. Oluwafadekemi and Adeyemi (2018) argue that it is not just growth but the way in which growth proceeds that matters.

The ineffectiveness of the market to stabilize the economy brought about fiscal deficit financing. This was introduced in response to the 1930s-style volatility of the economy. To promote economic growth and progress, Keynes advocates using fiscal deficits to finance economic growth. According to the Keynesian theory, the practice of deficit financing may be used to combat inflationary-unemployment during recession or

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depression in the developed countries. Within the post Keynesian framework, deficit financing is suggested as a means for minimizing the problems encountered by underdeveloped nations, particularly those of unemployment, inflation, money supply, current account deficit, and economic growth. In Keynesian economics, governments can spend more than they get in tax revenue during recessions. When the government fails to make up for the shortfall in revenue with spending, there is the need for some intervention. This school of thought maintains that an increase in government expenditure will benefit the private sector by increasing demand, supporting domestic output, and making the economy better off. When there is a decrease in aggregate demand, such as during the great depression in the 1930s and more recently in the 2008 global financial and economic crisis, people blame public sector expenditure cuts for causing depression. This is expected to increase the amount of production that has to be produced, as well as lower the degree of unemployment (Anyanwu & Oaikhenan, 1995, Ogboru, 2006, Iya, Aminu & Gabdo, 2014).

. CBN (2013) cited in Oluwafadekemi and Adeyemi (2018) reports that Nigeria consistently recorded budget deficits from 1980 to 2013, with rare cases of budget surplus occurring only in the years 1995 and 1996 Statistics show that Nigeria's debt profile is currently on the rise. Her total debt stock increased by 10.2%, from ₦7.54 trillion as at December 31st 2012 to N8.32 trillion in September 2013(Oluwafadekemi & Adeyemi ,2018). Oluwafadekemi and Adeyemi (2018) observed after further analysis that the ratio of the federal government's domestic to external debt as at September 2013 stood at 88:12 as opposed to the appropriate ratio of 60:40. As at September 2014, the total debt stock was at $69.6 billion or 13% of her GDP. As at June 2015, total debt stock totaled ₦12.12 trillion (CBN statistics, 2013). According to James (2009) cited in Oluwafadekemi and Adeyemi (2018) ,budget deficit financing is one of the causes of poverty in Sub-Saharan Africa just as it is a vital instrument for economic growth in Sub-Saharan Africa. As observed by Daudu(2011),Nigeria usually roles out funding for government initiatives such as education, housing, health, and social infrastructure, but these funds frequently end up in the wallets of people that include bureaucrats, their associates and other persons. However, she has been unable to use the benefits of budget deficit financing (UNDP Report, 2014).

Consequently, Nigeria has a Human Development Index (HDI) of 0.466 on the average, all her intermediate inputs are imported, and poverty levels remain high (UNDP Report, 2014). Despite the continuous increase in the government expenditure in Nigeria over the years, the economic has not grown as expected (Adegboyo, Efuntade & Efuntade, 2020). There is high rate of unemployment, poor infrastructures, and high rate of poverty among others.

Generally, the impact of fiscal deficit on economic growth has been one of the contentious issues both theoretically and empirically with no conclusion. Theoretically, Keynesians are of the opinion that fiscal deficit enhance economic growth, Neo-classicalists are of the view that fiscal deficit is detrimental to economic growth while Ricardians argued that fiscal deficits had no impact on the economic growth. The situation highlighted above has prompted this study to examine the effect of fiscal deficit on Nigeria economy so as to determine which of the categories did Nigeria belongs. Empirically, scholars like Nwanna and Nkiruka (2019), Hussain and Haque (2017), Momodu and Monogbe (2017) and Goitsemodimo, Yohane and Priviledge (2018) found that fiscal deficit propel economic growth, while Sharma and Mittal (2019), Tung (2018), Ravinthirakumaran and Kasavarajah (2016), Orkoh and Owusu (2016), Anantha and Gayithri (2016) noted that fiscal deficit inhibits economic growth. Rakesh and Sanjay (2015), Samirkaş (2014), Lwanga and Mawejje (2014), found no relationship so this study is necessitated to determine how fiscal deficit has been affecting the country.

The specific objectives of the study were to
1. Determine the effect of internal borrowing on the real gross domestic product of Nigeria,
2. Ascertain the effect of external borrowing on the real gross domestic product of Nigeria,
3. Examine the influence of way and means on the real gross domestic product of Nigeria, and
4. Evaluate the effect of the use of external reserves on the economic growth in Nigeria.

Research Hypotheses

Ho₁: External borrowing financing has no significant effect on the real domestic product of Nigeria.

Ho₂: Internal borrowing financing has no significant effect on the real domestic product of Nigeria.

Ho₃: Way and means has no significant effect on the real gross domestic product of Nigeria,

Ho₄: External reserves financing has no significant effect on the real domestic product of Nigeria.

This study was carried out on Nigeria and covers the period from 1980 0t 2018. The explanatory variable, fiscal deficit was proxied by internal borrowing, external borrowing, ways and means and external reserves. The dependent variable, economic growth was represented by real gross domestic product.

2. Review of the Related Literature
2.1 Conceptual framework
2.1.1 Concept of fiscal policy
According to Musa (2021), fiscal policy simply refers to the actions taken by government with a view to controlling government expenditure and income in order to achieve some predetermined macro-economic objectives. Usually, these objectives include, but are not limited to reduction in unemployment level, price stability, rapid economic development and a healthy balance of payments position (Abdurrauf, 2015). In developing countries, fiscal policy is regarded as a means for moving backward economies to the path of sustained economic growth and development. The fiscal system is generally considered as one with a package of instruments for translating development policy objectives into practice. The authors contend that the implementation of fiscal policy is essentially done through government's budget. Fiscal policy is used mostly to achieve macroeconomic policy. According to the authors, it is also employed either to reconcile the changes which government modifies in taxation, expenditure, and programs or to regulate the full employment price and total demand to be used through instruments such as government expenditures, taxation, and debt management. The objective of fiscal policy is to promote economic conditions that are conducive to business growth while ensuring that any such government actions are consistent with economic stability (Anyanwu,1998).

2.1.2 Fiscal deficit
Adegboyo et al. (2020) report that there are different definitions of fiscal deficit by different scholars. For International Monetary Fund fiscal deficit can be defined mathematically as {(revenue + grants) –(expenditure on goods and services + transfers) –(lending –repayments)}. It is the excess of government expenditure over income in a given period usually a year. Fiscal deficit is one of such package of instruments of fiscal policy. It involves the use of government spending, taxation, and borrowing to influence the pattern of economic activities and also the level and growth of aggregate demand, output, and employment. It demands that government manages the economy through the manipulation of its income and spending to achieve certain desired macroeconomic objectives (goals) one of which is economic growth. Olawunmi and Tajudeen (2007) confirm that fiscal policy has conventionally been associated with the use of taxation and public expenditure to influence the level of economic activities.

Fiscal deficit can be financed through domestic borrowing and external borrowing. It is expected that when fiscal deficit is properly harnessed, there will be infrastructural and human capital development, reduction in unemployment and recovery from depression/recession. All those would in turn be expected to increase average standard of living of the populace and consequently promote economic growth. However, Anyanwu (1997) posits that when fiscal deficit is not more than 3 percent of the GDP which is the international bench mark then it can adversely affect interest rate, inflation rate as well as balance of payment, and deter economic growth It can reduce national savings which would have been use for private investment. In other words, it crowds out private domestic investment. This will lead to a reduction in capital stock and national output. As such government should only borrow when there is recession or high unemployment, or when there is a rise in a private sector savings. It can also be detrimental to development when an excessively large percentage of deficit budget is used to finance current consumption. Fischer and Easterly (1990) cited in Nwanna and Umeh (2019) identify four ways of financing the deficit, namely (i) domestic borrowing. (ii) external borrowing (iii) printing money (ways and means) and (iv) the use of foreign reserves

Domestic borrowing has four components. These include
(i) Borrowing from the Banking System
(ii) Borrowing from the non-banking public, (iii) Borrowing from the Central Bank through the issuance of new currency and (iv) Drawing from the reserves of the Central bank

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2.1.3 Concept of Economic growth

In general, economic growth is defined as percentage increase in gross domestic product (GDP) on year-to-year basis. Economic growth means a sustained increase in per capita national output or net national product over a long period of time According to Black (2002), an increase in an economic variable, normally persists over successive periods. Growth in the quantity of real output and income is an example of change in the economy's performance through time. An economy expands as a result of an upward limp in the quantity of products and services. Expansion in an economy can take place also because the quantity of resources is expanded while using those resources more effectively (Nzotta, 2014). When nations develop in technology and technical knowledge, which in turn results in a boost in production and output, they experience growth. Also, growth is pursued as living standards rise and residents' money increases. It is a matter of constant output or economic growth that steadily increases the country's productive capacity, resulting in growing levels of national output and revenue. Capital accumulation, increase in population, and growth in the labor force are the three components of economic growth.

Growth in economic products and services refers to a rise through time. Nominal or real (adjusted for inflation) words are measurable. Traditionally, economic growth is quantified in terms of GNP or GDP, although other measures may be employed (Uwakaeme, 2015).

Ahuja (2008) distinguished between economic growth using two different definitions. Real national income, measured by Gross Domestic Product (GDP), can be seen as an economic measure of growth since GDP indicates the extent to which a country's national income increases on a year-to-year basis. This is an inflation-adjusted measure which reflects the value of all goods and services produced by an economy in a given year (expressed in base-year prices). It is often referred to as constant-price GDP, inflation-corrected GDP, or constant dollar GDP or real GDP.

The second method of measuring economic growth is to measure it in terms of gross domestic product per capita. The per capita income measure indicates the level of living that a typical citizen of a country will have in terms of having access to the goods and services that he or she desires for their personal consumption and investment, or

GNP Gross National Product, which measures the total output of goods and services a country is capable of producing.

The World Bank and the IMF utilize these two economic measures to compare growth and levels of living in the developed and developing countries in their annual World Development Reports.

2.2. Theoretical framework

2.2.1 Theory of Fiscal Deficit

The various theories on fiscal deficit that exist date back to centuries. These theories examine why the budget deficit tends to expand with every new administration, and how this affects economic growth.

a. Keynesian theory of Fiscal deficit Financing

Following the Great Depression, Keynesian theories of fiscal deficit finance and fiscal policy economics emerged. In Keynesian economics, governments intervene to moderate the business cycle. For example, expansionary fiscal policy (tax cuts and increased government expenditure) is employed. The contemporary economic theories could neither explain the reasons of the worldwide economic collapse, nor offer a workable public policy approach to provide a boost to the economy. However, following the advancement of new radical ideas in economic theory by John Maynard Keynes, the once-dominant view that free markets will ensure full employment shifted from the dominant concept to a different view point. The new concept is that wages are flexible and everyone who wants a job will have one. Keynes is credited with having introduced the concept of aggregate demand, which was later called the "Keynesian multiplier." This means that unfettered markets, with no self-balancing systems, cannot guarantee an economy stays at full employment. Keynesian economists argue that government policies may achieve full employment and price stability by implementing public programs.

b. Ricardian equivalence Theory of budget deficit and fiscal policy

This macroeconomic theory says that when the government tries to boost the economy by increasing the amount of debt funded through deficit spending, demand will not increase. The basic concept is that regardless of how a government plans to boost spending, whether by borrowing more or by imposing less taxation, the total

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amount of money that people are willing to spend will stay same. According to this idea, people would save any money they get, expecting future tax rises to pay off their debt. Ricardo created this idea in the early 1800s, and Harvard Professor Robert Barro subsequently expanded on it. This is why the Barro-Ricardo equivalence thesis is sometimes known as the Ricardian equivalence.

A Ricardian equivalency is a form of analysis used to derive the lifetime present value of a person or family's post-tax income. Those who receive a government windfall assume they are getting something for nothing. The rise in income is a bonus, not a long-term boost. They know it's unlikely to reoccur, and in the future they will face greater taxes as a result. According to Ricardo, the government is not capable of stabilizing the economy.

Many economists dispute Ricardo's thesis, claiming that it rests on unrealistic assumptions. If an employer lowers an employee's wage, it believes individuals will save money out of fear of an impending tax hike. The most difficult assumption is that they will not need to take advantage of the windfall. Even while markets, the economy, and incomes are all assumed to stay stable in the future, it presupposes that the capital markets, the economy in general, and even individual earnings will remain static in the near future.

c. Wagner's Law

Germany's first prominent economist, Adolph Wagner, brought the focus of economists to the growing costs of the government. When Wagner wrote on the rise of government in his book published in 1883, he started out with the argument. Many economists have conducted theoretical and empirical studies on government budget growth, as a result of his research. Wagner's theories have held up to empirical scrutiny in the current empirical research. Adolph Wagner has proposed that increases in public activities in the national economy are mainly due to these reasons: (i) the government increases its expenditures for security and justice, and (ii) individuals' demand for their own prosperity; this causes the government to spend more on education, health, etc.

d. Peacock Wiseman Hypothesis

The Peacock Wiseman hypothesis popularized public spending growth studies by demonstrating how Great Britain's expenditure increased over the course of the 20th century. The Peacock Wiseman hypothesis, which regards budget deficits as something that is necessary, was proposed in 1961. The Peacock Wiseman hypothesis asserts that public expenditure follows a broken or discontinuous trend. It is referred to as the law of jerks. The hypothesis claims that when there is an economic disturbance, a rise in public spending is needed in order to address the problem. As succeeding generations live through fresh social upheavals, the fiscal actions of the government grow to meet those challenges. Displacement effect, inspection effect, and concentration Effect are all proposed to help justify the theory.

A tax rise, as well as an increase in public spending, happens when a social disruption develops. By increasing tax and expenditure levels, it generates a displacement effect in which low taxes and spending levels are replaced by higher taxes and spending levels. Nevertheless, following the upheaval, people are prepared to support a greater level of public expenditure due to the newly established level of tax tolerance, which is capable of enduring a bigger tax load than previously. So a new level of public expenditure and public revenue are set in place, but it just takes a matter of time until the system is destabilized again by a new disruption. The results of an inspection effort is that even when no new changes arise, there is a lack of significant incentive to return to a lower level of taxes. In this way, the fiscal activities of the government increase because of the disruption and also because of the need to play new economic roles that were previously overlooked. It is referred to as the Inspection Effect.

The rise in central government economic activity tends to outpace state and local government economic activities when an economy is experiencing growth. This known as concentration effect.

This work is anchored on the Keynesian theory.

e. Crowding out effect

Crowding out effect occurs when governments borrow funds from other countries to finance government spending usually through expansionary fiscal policies. When the government borrows money from another country, interest rate in that country goes up because of an increase in the demand for loans. This pushes up the prices. Because the interest rate of the central bank subsequently influences the interest rates of commercial or private banks, private borrowing would be discouraged. Hence, the term crowding out. Crowding out of some private borrowing takes place as government

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increases its spending. The severity of the effect is largely determined by the magnitude of the crowding out effect. The crowding out effects of fiscal policy must be minimized in order to maximize its effectiveness. Crowding out effect is one of the adverse effects of Keynesian policies, apart from chronic budget deficits. Crowding out is one of the potential consequences of deficit financing. When the government borrows funds to finance the deficit, the availability of funds for private sector spending may be reduced. Simply put, funds that would have been borrowed by the private sector for investment purposes are transferred to the government. Crowding out basically tells us that there is an opportunity cost to government spending. According to the literature, two types of crowding out can be identified:

(i) Government spending crowds out private spending by competing for scarce resources, which can be termed real crowding out.

(ii) Government borrowing crowds out private borrowing by raising interest rates, which can be termed financial crowding out.
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2,3 Empirical Literature
Using panel set data to analyze the impact of budget deficit on the economic growth of the BRICS nations over the period of 1997 –2016, Goitsemodimo et al. (2018) employed Modified Ordinary Least Squares (FMOLS) and the Dynamic Ordinary Least Squares (DOLS) estimation technique. The results showed that budget deficit instigates economic growth in BRICS nations and that there is bi-directional causal relationship between budget deficit and economic growth. Similarly, Momodu and Monogbe (2017), examined the impact of fiscal deficit on economic growth in Nigeria over the period of 1981 and 2015. Using VAR and granger causality estimation techniques to analysis the data, the results revealed that budget deficit positively influences economic growth. The granger causality result showed that there is bi-directional relationship between budget deficit and economic growth in Nigeria.

On the contrary, the study of Tung (2018) who investigated the impact of fiscal deficit on economic growth of Vietnam between2003 and 2016 using Johansen co-integration and correlation matrix estimation technique. The two estimation techniques showed that fiscal deficit is detrimental to economic growth. Using Vector Autoregression (VAR) framework to analysis the impact of fiscal deficit in selected South Asian countries, namely, Bangladesh, India, Nepal, Pakistan and Sri Lanka between the period of 1980 and 2014, Ravinthirakumaran and Kasavarajah (2016) carried out similar investigation and found that fiscal deficit adversely affects economic growth in the selected countries except Nepal.

Conversely, Hussain and Haque (2017) examined the relationship between fiscal deficit and economic growth in Bangladesh between the period of 1993 and 2016 using VECM estimation technique. The study sourced data from both the World Bank data and Bangladesh Bureau of Statistics (BBS). The findings of the result of data obtained from BBS showed that there is a positive and significant relationship between fiscal deficit and economic growth which conform to the Keynesian theory, while the findings from the data obtained from World Bank disclosed that fiscal deficit had a negative and significant effect on economic growth. Also, Maji and Achegbulu (2012) examined how fiscal deficit had been affecting economic growth in Nigeria between 1970 and 2009 using ordinary least squares technique. The result showed that fiscal deficit stimulates economic growth in Nigeria and therefore recommends that government should increase her spending on productive sector. Using ARDL estimation technique to analysis the data. Ali, Mandara and Ibrahim (2018) explored the impact of fiscal deficit on Nigeria's economic growth between the period of 1981 and 2016. The result indicated that fiscal deficit inhibits economic growth in Nigeria. Further, Sharma and Mittal (2019) sought to determine the impact of fiscal deficit on economic growth in India over the period of 1985 and 2015. The work employed ARDL model and Granger Causality test. The result of ARDL showed that fiscal deficit had negatively affects economic growth while Granger causality test showed that fiscal deficit affects economic growth through a mechanism channel. On the other hand, Samirkaş (2014) examined the relationship between fiscal deficit and economic growth in Turkey between the period 1980 and 2013, employing Johansen co-integration test and Granger causality test. The result revealed that there is no relationship between fiscal deficit and economic growth in Turkey. In the same direction, Lwanga and Mawejje (2014) used Vector Error Correction Model (VECM) and granger causality

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to investigate the relationship between budget deficit and some selected macroeconomic variables in Uganda between 1999 and 2011. The VECM result showed that there is no causal relationship between economic growth and budget deficit while granger causality test showed that economic growth granger causes fiscal deficit.

Using Johanson Co-integration test to investigate the impact of fiscal deficit in Nigeria between 1981 and 2016, Nwanna and Nkiruka (2019) concluded that fiscal deficit financed by both external and domestic loans had positive impact on economic growth. Similarly, Shihab (2014) studied the causal relationship between fiscal policy and economic growth using granger causality test between the period of 2000 and 2012. The study revealed that economic growth granger caused budget deficit and consequently recommended that government should focus on policies which facilitate increasing private investment. Contrarily, Nkrumah, Orkoh and Owusu (2016) explored the impact of budget deficit on Ghana's economic growth. The study used quarterly data spanning between 2000 and 2015. Autoregressive Distributed Lag (ARDL) approach was employed to analysis the data. The result revealed that budget deficit is detrimental to economic growth in Ghana. Likewise, Anantha and Gayithri (2016) examined the effect of fiscal deficit on economic growth in India between 1980 and 2013. The authors used Vector Error Correction method to analyze the data. The result revealed that fiscal deficit affects economic growth adversely. The authors however noted that if fiscal deficit money is spent on capital formation, it will stimulate economic growth. Biplob (2019) investigated the effect of budget deficit on economic growth in Bangladesh over the period of 1981 and 2017. Autoregressive distributed lag (ARDL) model was employed. The result showed that budget deficit promotes economic growth in Bangladesh. The study revealed that fiscal deficit deters economic growth in Pakistan.

Okah and Monogbe (2017) used error correction model and the Granger causality test to investigate the growth of the Nigerian economy from 1981 to 2015 as a result of deficit financing. The result showed that there is a significant p-value of 0.0173 for federal government external debt at a p-value of 0.000031 and a positive coefficient of 0.000031. It indicates that 1% increase in federal government external debt can have a stimulating effect on economic development in Nigeria, resulting in a positive net effect of 0.00003. According to this study, debt financing promotes economic development in Nigeria, so long as it is properly used for the original goal for which it was intended. The research confirms the Keynesian notion that deficit funding is connected to economic growth.

Using data from publications of the Central Bank of Nigeria's Statistical Bulletin from 1981 to 2012, Akinmulegun (2014) carried out a similar study the situation of the Nigerian economy. With descriptive statistics, OLS, Diagnostic test, ADF unit root, Johansen Co-integration, and pairwise Granger causality the study concluded that Nigeria's economic development was favorably correlated with deficit financing.

Paiko (2012) analyzed the effects of government expenditure on private investment and the ways in which the financing of budget deficits have excluded private investment from playing an active role in the country's economic growth. Some CBN data sources such as the CBN Statistical and Bureau of Statistics Bulletins were utilized. The econometric models employed showed that deficit financing had a less impact on private investment in Nigeria than would be expected given the level of public debt. Using ordinary least squares (OLS), augmented Dickey Fuller (ADF) method, an error correction model. With Johansen co-integration test carried out, the findings showed a negative connection between the amount of money governments are running a deficit on and private investment, especially in Nigeria, where there is a significant amount of deficit financing. The paper recommended that the Nigerian government should implement a fiscal strategy that would increase private investment by reducing the country's fiscal deficit and keeping overall government spending to a minimum. In addition, it suggested that the financing of the deficit takes place on the capital market to minimize crowding out effect.

Nwanne (2014) examined the long-term consequences of Nigeria's budgetary deficit financing on the country's economic stability over the last 40 years, using the econometric technique of ordinary least squares. In addition, the study utilized many other sources of deficit finance (non-banking public sector, exchange rate, ways and means, and banking system). Gross domestic product (GDP) was a metric for economic growth. The study found that foreign debt, national debt, and exchange rate had a positive impact on the nation's GDP. In contrast,

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factors such as ways and means, financial institutions, and interest rates have negative effects on GDP.

Nwaeze (2017) employed an empirical approach to investigate the nexus between fiscal deficits, financial options, and macroeconomic stability in Nigeria over the period from 1970 to 2016. Unit root test, co-integration, and VAR estimation techniques were all used in the analysis. The results of the variance decomposition indicated that inflation (INFL) is caused mainly by variations in Interest rate (INTR), overall fiscal deficits (OFDE), and the amount of deficits financed by borrowing domestically (DBFD). However, exchange rate (EXCR) was found to be mostly caused by overall fiscal deficits (OFDE), the amount of fiscal deficits financed by borrowing externally (EBFD), and the size of deficits financed by domestic borrowing (DBFD).

Eze and Nwambeke (2015) used an error correction model to study the influence of deficit financing on unemployment rate in Nigeria, using retrospective research. The annual time series data spanning 1970–2013 (44 years) were sourced from Nigeria's Central Bank, National Bureau of Statistics, and World Bank produced. The study employed unemployment rate (UNEMR) as the dependent variable, while external sources of deficit funding (EXDF, WM, BSDF, NBPDF, INTR, and EXR) were used as explanatory factors. External deficit financing (EXDF), way and means financing (WM), and interest rate (INTR) were shown to have a negative and non-significant impact on economic stability in Nigeria, with the exception of non-banking system financing, which was non-significant. The findings imply that deficit financing (i.e. EXDF and WM) by way of external means reduced the rate of unemployment in Nigeria, which helped to keep the country's economy stable.

The findings of the study carried out by Ojong, Owuiz and Effiong (2013) showed that budget funding influences economic development in Nigeria. Okah, Chukwu and Ananwude (2019) investigated the economic growth of Nigeria during the course of 1987 to 2017.

Adegboyo, Efuntade aned Efuntade (2020) examined the impact of fiscal deficit on economic growth in Nigeria for period of 1980 to 2018. Given the mixed level of stationarity of the variables as found in the unit root test, this study adopted auto-regressive distributed lag (ARDL) technique. The result of the study shows that

fiscal deficit is detrimental to economic growth in Nigeria.

Oluwafadekemi and Adeyemi (2018). investigated the effects of fiscal deficits on Nigeria economic growth from 1981-2014. The study established an optimal fiscal deficit level using the Threshold Autoregressive model. The empirical analysis supported the existence of a significant positive relationship between economic growth and the regressors – internal borrowing and way and means. On the contrary, the study revealed that a significant negative relationship exists between external reserve and economic growth in Nigeria. The study established a threshold level of 5% which is conducive for economic growth at a lag of 1 year, for the Nigerian economy. Aligning this finding to the present reality, it is hence concluded that the Nigerian economy has been characterized by continuous fiscal deficits, which has not positively contributed to economic growth. The study suggests that the government should increase capital spending and ensure that an optimal fiscal deficit bracket level of 5% is maintained.

Musa (2021) adopted a descriptive method to show the trend of fiscal elements in Nigeria with the aim of determining the impact of fiscal deficits on economic growth in Nigeria, the paper concludes that fiscal operation is ineffective in providing the needed macroeconomic environment for sustainable growth. The paper further suggested that it requires the emergence of powerful pro-stability stakeholders that are strong enough to challenge government fiscal recklessness for sustainable and progressive development to be attained at all levels.

3. Methodology
3.1 Research Design
This study employed the *ex-post facto* research design to measure the relationship between the dependent variable and explanatory variables using time-series secondary data. To empirically examine the impact of fiscal deficit on the economic growth of Nigeria, the researcher subjected the data collected to Augmented Dickey-Fuller Unit Root test statistic, Johansen Co-integration test, error-correction mechanism, Ramsey Reset and Breuch-Godfrey Serial Correlation LM test.
3.2 Data Sources
The variables of this study consist of real GDP (RGDP), internal borrowing (INB), external borrowing finance

(EXB), external reserve (EXR), way and means (WAM) for the period of 1980 to 2018 as defined in the model specification. All the variables were sourced from Central Bank of Nigeria's (CBN) statistical bulletin for the relevant years.

3.3 Model Specification

The study adopted the work of Monogbe and Okah, (2017) which heavily follows the Keynesian framework. In a simple Keynesian framework, the desired aggregate demand relationship in the goods market in the Keynesian framework is expressed as follows:

Y= C + I + G + (X-M)………………………………………………………
………………….1

This work specifically adopted the model of Nwanna and Umeh (2019); Akinmulegun (2014), Bazza, Mandara and Ibrahim (2018); Onwe (2014) to study the effect of fiscal deficits financing on Economic growth. It is also aligned with the study of Aminu and Aminu (2015)

4.1 DATA PRESENTATION AND ANALYSIS

which re-examined the causal relationship between energy consumption and economic growth using Nigeria's data. Consequently, the model is represented in a functional form of the model was shown below:

RGDP=f(INB, EXB, EXRV, WAM……..……(3.1),
where RGDP is real GDP, INB is internal borrowing , EXB is external borrowing, EXRV is external reserve and WAM is way and means ,

In a linear function, it is represented as follows:
RGDP = β_0 - β_1 INBF - β_2 EXBF + β_3 EXRV + β_4 WAMS + Ut ……… (3.2)

Where: β_0 = Constant term, β_1 to β_4 = Regression coefficient and U_t = Error Term.

To reduce the outliers among the variables, all variables were expressed in logarithmic form as follows:

LogGDP = β_0 + β_1LogINB + β_2LogEXB + β_3 LogEXRV + β_4 LogWAMS + Ut………… (3.3)

Where: β_0 = Constant term, β_1 to β_4 = Regression coefficient and U_t = Error Term.

Table 1 real GDP (RGDP), internal borrowing finance (INB), external borrowing finance (EXB), external reserve (EXRV) and way and means finance (WAM).

Year	RGDP	INBF	EXBF	WAMS	EXRV
1980	31546.80	387.1	255.3	-122.9	5445.6
1981	205222.10	4200.8	464.4	3624.1	2424.8
1982	199685.30	3402.1	263.5	2989.2	1026.5
1983	185598.10	7057.1	1406.9	3271.2	781.7
1984	183563.10	2928.2	1184.5	-1418.9	1143.8
1985	201036.30	571.2	1045.9	-567.6	1641.1
1986	205971.40	475.5	708.1	6042.7	3587.4
1987	204806.50	6465.6	832.7	590.9	4643.3
1988	219875.60	8361.8	1918.7	7473.7	3272.7
1989	236729.60	5797.8	5719.1	-6477.4	13457.1
1990	267550.10	6092.6	980.6	-1498.1	34953.1
1991	265379.10	32112.4	2972.6	18430.8	44249.6
1992	271365.50	46716.7	11859.6	46433.4	13992.5
1993	274833.30	91136.1	16963.5	62383.6	67245.6
1994	275450.60	60247.6	8390.8	41253	30455.9
1995	281407.40	7102.2	22455.4	7312.6	40333.2
1996	302022.50	-143190	7825.4	52288.4	174309.9

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1997	310890.10	-60637.1	13382.6	12795	262198.5
1998	312183.70	103885.7	16605.6	174875.1	226702.4
1999	356994.30	151079.4	21040.8	0	546873.1
2000	433203.50	103447.3	0.01	-16209.9	1090148
2001	477533.00	118720	0	225685.5	1181652
2002	477533.00	149026.7	0	-200174	1013514
2003	527576.00	163746.4	0	94046.4	1065093
2004	527576.00	46481.3	0	0	2478620
2005	37474.95	143500.1	0	0	3835433
2006	39995.50	45146.1	0	0	5617317
2007	42922.41	212300.1	0	0	560098
2008	46012.52	150700.1	62900	-11300	3485774
2009	49856.10	511100.7	93620	318500	4545443
2010	54612.26	916206.7	219512	32994	5869434
2011	57511.04	1453195	155938.3	37373	7565221
2012	59929.89	1104061	172302.1	47300	4657388
2013	63218.72	1459464	3447566	45002	7484732
2014	67152.79	1508065	6776776	30046	636363
2015	69023.93	1567864	3223348	40122	7004747
2016	67931.24	1123936	687677	31105	7383734
2017	69809.24	1105789	899553	32001	7463262
2018	569980.67	1200989	987654	57488	667263

Source: Central Bank of Nigeria's (CBN) statistical bulletin for various years

4.2 Results and Discussion

The ADF test is used to ascertain whether the variables are non-stationary (unit root). If the results indicate that all series are stationary in the first difference or all series are generated by 1(1) and 1(1) process, condition of stationarity is established or confirmed (Gujarati, 2004 in Oluwafadekemi & Adeyemi ,2018) The unit root was carried out to avoid unrealistic regression and violation of ordinary least squares assumption.

Table 2: Results of Stationarity (unit root) test.

Variables	ADF-Statistics	Critical Value	Philliph-Perron Statistics	Critical Value	Remark
RGDP	-4.360548	1% level = -3.615588 5% level = -2.943427 10% level = -2.610263	-4.360548	1% level = -3.621054 5% level = -2.943427 10% level = -2.610263	1(1)
INB	-6.115310	1% level = -3.615588 5% level = -2.943427	-6.121776	1% level = -3.621054	1(1)

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		10% level = -2.610263		5% level = -2.943427 10% level = -2.610263	
EXB	-4.903364	1% level = -3.615588 5% level = -2.943427 10% level = -2.610263	-7.889466	1% level = -3.621054 5% level = -2.943427 10% level = -2.610263	1(1)
EXRV	-9.423757	1% level = -3.615588 5% level = -2.943427 10% level = -2.610263	-13.71125	1% level = -3.621054 5% level = -2.943427 10% level = -2.610263	1(1)

WAM	-6.200465	1% level = -3.615588 5% level = -2.943427 10% level = -2.610263	15.40458	1% level = -3.621054 5% level = -2.943427 10% level = -2.610263 I(1)

Source: Author's computation

The real GDP (RGDP), internal borrowing (INB), external borrowing (EXB), way and means (WAMS) and external reserve (EXRV) were stationary at first difference .Based on the result of the unit root test, it became preferable to use Error Correction regression Model to estimate the parameters.

Johansen Co-integration Test Results

Since all the variables were integrated of order 1 (1), we turned to determine the existence of long run equilibrium relationship among the variables. Separate co-integration tests were carried out on real GDP (RGDP), internal borrowing (INB), external borrowing (EXB), way and means (WAM) ,external reserve (EXRV. Non-stationary time-series can be co-integrated if there are linear combinations of them that are stationary, that is, if the combination does not have a stochastic trend. In other words, if two or more I(1) variables are co-=integrated, they must obey an equilibrium relationship in the long-run, although they may diverge substantially from that equilibrium in the short run. The co-integration tests were carried out in table 3 as proposed in Johansen and Juselius (1989).

H$_0$: There is no co-integration (no long run relationship) among the variables

Table 3: Co-integration Test Results

Date: 01/28/20 Time: 15:36
Sample (adjusted): 1982 2018
Included observations: 37 after adjustments
Trend assumption: No deterministic trend
Series: RGDP INB EXB WAM EXRV
Lags interval (in first differences): 1 to 1

Unrestricted Cointegration Rank Test (Trace)

Hypothesized	Trace	0.05

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No. of CE(s)	Eigenvalue	Statistic	Critical Value	Prob.**
None *	0.989715	351.3131	111.7805	0.0000
At most 1 *	0.894016	181.9610	83.93712	0.0000
At most 2 *	0.658411	98.91563	60.06141	0.0000
At most 3 *	0.615474	59.17218	40.17493	0.0002
At most 4	0.408559	23.80963	24.27596	0.0572
At most 5	0.087919	4.377445	12.32090	0.6563
At most 6	0.025940	0.972456	4.129906	0.3757

Trace test indicates 4 co-integrating eqn(s) at the 0.05 level
* denotes rejection of the hypothesis at the 0.05 level
**MacKinnon-Haug-Michelis (1999) p-values

Source: E-view Results

The co-integration results in table 3 for the model (RGDP, INB, EXB, WAM and EXRV reveal that both trace test and the Max-eigenvalue tests indicate 4 co-integrating equation(s) at 5 percent level of significance. Thus, there is a long-run relationship among the variables (RGDP, INB, EXB, WAM EXRV). The null hypothesis of no co-integration amongst the variables was, therefore, rejected and the alternative hypothesis accepted.

4.2.1 Data Analysis

Table 4:Empirical Results of the error correction Model (ECM)

Dependent Variable: D(RGDP,1)
Method: Least Squares
Date: 01/28/20   Time: 16:43
Sample (adjusted): 1981 2018
Included observations: 38 after adjustments

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	8785.214	17531.87	0.501100	0.6200
D(INB,1)	0.441316	0.112910	3.908564	0.0004
D(EXB,1)	-0.026888	0.021349	-1.259450	0.0943
D(WAM,1)	0.032188	0.147875	0.217668	0.8292
D(EXRV,1)	-0.026627	0.009864	-2.699492	0.0113
ECM-1	-0.324081	0.148872	-2.176907	0.0375

R-squared	0.863615	Mean dependent var		14169.31
Adjusted R-squared	0.715125	S.D. dependent var		119449.1
S.E. of regression	105823.8	Akaike info criterion		26.16160
Sum squared resid	3.36E+11	Schwarz criterion		26.50636
Log likelihood	-489.0704	Hannan-Quinn criter.		26.28426
F-statistic	5.448750	Durbin-Watson stat		1.801701
Prob(F-statistic)	0.004193			

Source: Resercher's computation with E-views9

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Results

The error correction model was carried out to examine the parameter estimates. In testing the hypotheses, internal borrowing (INB), external borrowing (EXB), external reserve (EXRV), way and means (WAM), were regressed against real GDP (RGDP). The result of the regression analysis represents the model for the effect of fiscal deficits on the economic growth of Nigeria. The empirical result in table 4 shows that the coefficient of internal borrowing finance (INB) has positive and significant effect on real GDP (RGDP).This is so because the observed values of t – statistics (3.9085) was greater than its critical value (1.684). The empirical result shows that the coefficient of external borrowing finance (EXB) has negative and non-significant impact on real GDP (RGDP) as the observed values of t – statistics (-1.2594) was less than its critical value (1.684). The empirical result equally shows that the way and means (WAM) has positive and weak effect on real GDP (RGDP) - the

observed values of t – statistics (0.217668) was less than its critical value (1.684). The external reserve (EXRV) has negative and significant effect on real GDP (RGDP) because their observed values of t – statistics (-2.699492) was greater than its critical value (1.684). The result of the F – statistical test shows that the overall regression of the variables was statistically significant, as the observed values of the F – statistics (4.44875) was greater than its critical value (3.830). In addition, the empirical result reveals that the R-squared (R^2) is 0.8636 - implying that the explanatory variables of this study accounted for 86.36 per cent of the changes in Nigeria's real GDP. The ECM statistics was (-2.176907). The ECMt-1 result indicates that 32% numbers of errors have been corrected from short run adjustment to the long run. In other words, ECM statistics shows that the model has 32 percent degree of adjustment from short-run to long-run equilibrium.

4.2.2 Econometric /Second Order Test

H_0 : **There is Autocorrelation**.

Table 5: Result of Breuch-Godfrey Serial Correlation LM Test

Breusch-Godfrey Serial Correlation LM Test:

F-statistic	34.30083	Prob. F(1,29)	0.0000
Obs*R-squared	20.02308	Prob. Chi-Square(1)	0.0000

Test Equation:
Dependent Variable: RESID
Method: Least Squares
Date: 01/28/20   Time: 17:43
Sample: 1981 2018
Included observations: 38
Presample missing value lagged residuals set to zero.

Source: E-view Results

The Breuch-Godfrey Serial correlation LM Test in table 5 was used to identify whether the model suffers from autocorrelation problem. The autocorrelation problem violates ordinary least squares assumption that there is no correlation among error terms of different observation. The Breuch-Godfrey serial correlation LM test is a statistic that ensures that the assumption of ordinary least square was not violated. The null hypothesis is that there is some autocorrelation problem.

The F-statistic in the result of Breuch-Godfrey Serial correlation LM test was 34.30083 while its p-value was 0.0000. Since this observed value(34.30083) is greater than the p-value was (0.0000), the implication was that the model is free from Autocorrelation problem. This denotes that prediction based on the Ordinary Least Square estimates were efficient and unbiased.

4.2.3 Result of Ramsey Reset Test
The null hypothesis; there is Specification Error.
Table 6: Ramsey RESET   Test
Equation: UNTITLED
Specification: D(RGDP,1) C D(INB,1) D(EXB,1) D(WAM,1)
    D(EXRV,1) ECM-1
Omitted Variables: Squares of fitted values

	Value	df	Probability
t-statistic	2.632516	29	0.0134
F-statistic	6.930139	(1, 29)	0.0134
Likelihood ratio	8.142664	1	0.0043

F-test summary:

	Sum of Sq.	df	Mean Squares
Test SSR	6.48E+10	1	6.48E+10
Restricted SSR	3.36E+11	30	1.12E+10
Unrestricted SSR	2.71E+11	29	9.35E+09

LR test summary:

	Value	df
Restricted LogL	-489.0704	30
Unrestricted LogL	-484.9991	29

Source: E-view Results
This second order test checks whether the model of the study suffers model specification error. The null hypothesis is that there is model specification error. The Ramsey reset test showed that there was no specification error because its F-statistics (6.930139) is greater than probability value (0.0000). It means that model includes core variables, does not include superfluous variables, the functional form of the model was very well chosen and there is no error of measurement in the regressand and regressor.

4.6.3 Histogram Normality Test
Normality test is done to check if the residuals of the error term have a normal distribution. Normality test is conducted using Jacques-Bera (JB) test. In testing for normality in fig.1, the method used by Paavola (2006) for testing normality was adopted.

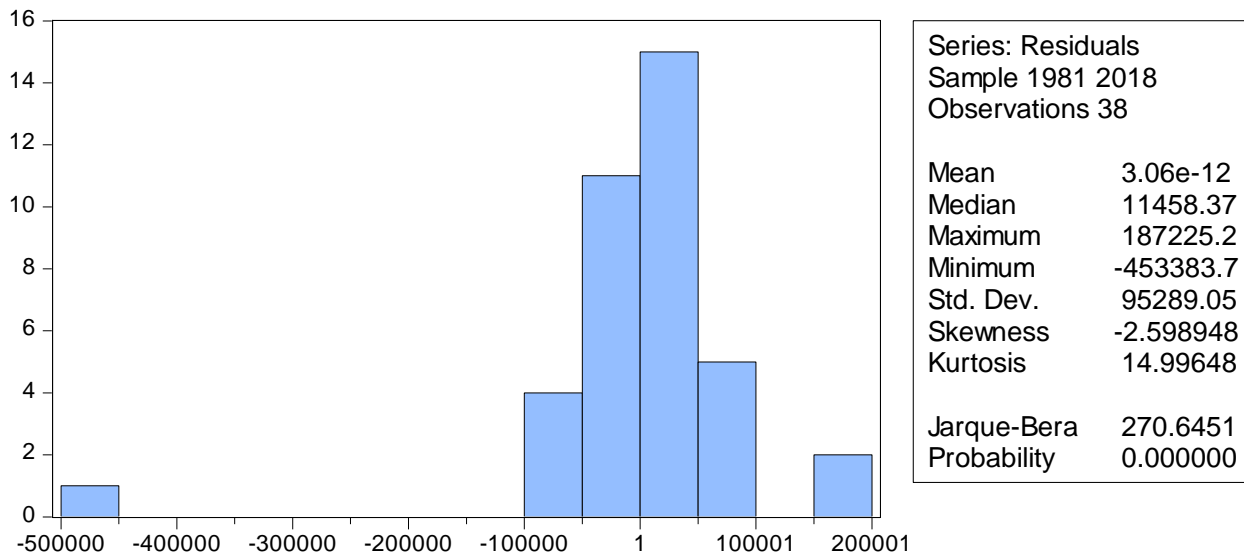Figure 1 presents normality test for each of the Distribution.

Series: Residuals	
Sample 1981 2018	
Observations 38	
Mean	3.06e-12
Median	11458.37
Maximum	187225.2
Minimum	-453383.7
Std. Dev.	95289.05
Skewness	-2.598948
Kurtosis	14.99648
Jarque-Bera	270.6451
Probability	0.000000

Fig.1: Normality test
Sources: Researcher;s computation using E-views 9.0 Version

Jarque-Bera (JB) test is the statistic that computes both skewness and Kurtosis. Skewness shows the degree of symmetry (normal distribution). The normal measurement is zero/0. Kurtosis is a statistic that computes the degree of peakedness. The normal measurement is three (3). A distribution is skewed if one of its tails is longer than the other. A skewed distribution can be positive or negative. Positive skewed distribution means that it has a long tail in the positive direction. Negative skewed distribution means that it has a long tail in the negative direction.

The null hypothesis is that there are no skewness and Kurtosis in the model. We rejected the null hypothesis because the Jarqua-Bera statistic (270.6451) is greater than probability value (0.000). We rejected null hypothesis and accepted the alternative that there is no skewness and Kurtosis in the model. The skewness is normal because the value was -2.598948. The model of the study produced positive skewed distribution meaning that it has a long tail in the positive direction. The kurtosis was 14.99648, meaning that the degree of peakedness was higher than the normal value of three (3). This implies that the standardized residuals from the estimated model in the regression framework was normally distributed. This is consistent with the OLS assumption of normality.

4.2.4 Test of Hypotheses
The results for the various hypotheses testing are presented in this section.
(i)Test of Hypothesis one
H_{O1} Internal borrowing financing have no significant effect on the economic growth in Nigeria.
In testing this hypothesis, internal borrowing (INB) was regressed against real GDP (RGDP). The empirical result shows that the coefficient of internal borrowing (INB) has positive significant effect on real GDP (RGDP) as the observed values of t – statistics (3.9085) was greater than its critical value (1.684). The empirical finding reveals that internal borrowing finance (INB) has positive significant effect on the economic growth in Nigeria.

(ii)Test of Hypothesis two
H_{O2} External borrowing has no significant effect on the economic growth in Nigeria.
In testing this hypothesis, external borrowing (EXB) was regressed against real GDP. The empirical result shows that the coefficient of external borrowing finance (EXB)

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has negative non-significant effect on real GDP (RGDP) because observed values of t – statistics (-1.2594) was less than its critical value (1.684). The empirical finding reveals that external borrowing has negative and non-=significant effect on the economic growth in Nigeria.

(iii)Test of Hypothesis Three

Ho₃: Way and means has no significant effect on the real domestic product of Nigeria

In testing this hypothesis, way and means (WAM) was regressed against real GDP (RGDP). The way and means (WAM) has a positive and non-significant effect on real GDP (RGDP) as their observed values of t – statistics (-0.217668 was smaller than its critical value (1.684). The empirical finding reveals that The way and

means (WAM) has a positive and non-significant effect on real GDP (RGDP) has positive non-significant effect on the economic growth in Nigeria.

(iv)Test of Hypothesis four

H$_{O4}$ External reserves have no significant effect on the economic growth in Nigeria.

In testing this hypothesis, external reserve (EXRV) was regressed against real GDP (RGDP). The external reserve (EXRV) has negative and significant effect on real GDP (RGDP) as their observed values of t – statistics (-2.699492) was greater than its critical value (1.684). The empirical finding reveals that external reserve (EXRV) has negative and significant effect on the economic growth in Nigeria.

Table 4: Empirical Results of the error correction model (ECM)

Dependent Variable: D(RGDP,1)
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Date: 01/28/20   Time: 16:43
Sample (adjusted): 1981 2018
Included observations: 38 after adjustments

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	8785.214	17531.87	0.501100	0.6200
D(INB,1)	0.441316	0.112910	3.908564	0.0004
D(EXB,1)	-0.026888	0.021349	-1.259450	0.0943
D(WAM,1)	0.032188	0.147875	0.217668	0.8292
D(EXRV,1)	-0.026627	0.009864	-2.699492	0.0113
ECM-1	-0.324081	0.148872	-2.176907	0.0375

R-squared	0.863615	Mean dependent var		14169.31
Adjusted R-squared	0.715125	S.D. dependent var		119449.1
S.E. of regression	105823.8	Akaike info criterion		26.16160
Sum squared resid	3.36E+11	Schwarz criterion		26.50636
Log likelihood	-489.0704	Hannan-Quinn criter.		26.28426
F-statistic	5.448750	Durbin-Watson stat		1.801701
Prob(F-statistic)	0.004193			

4.3 Discussion of findings and policy implications

From table 4, it is clear that the explanatory variables INB and WAM are positively related with RGDP, while EXB and XRV exert an inverse relation on RGDP. A unit increases in INB results in 0.441 unit increase in the rate of economic growth (RGDP) in the long run. Likewise,

the significance of the t-statistic tic at 5% level (3.91) shows that internal borrowing (INB) is an important and significant determinant of economic growth. Considering the strong response rate as posed by the magnitude, we can say that the contribution of internal borrowing to economic growth in the Nigerian economy is quite high.

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In furtherance, way and means exerts a positive influence on economic growth. A unit increases in way and means results in 0.032 unit increase in economic growth in the long run. This conforms to the a priori expectation of the study. Though way and means is non-significant statistically, but contributes a large chunk to economic growth in Nigeria. A unit increase in external borrowing will bring about a 0.026888 unit decrease in economic growth in the long run. External borrowing as a variable explaining growth is non-significant at a t-statistic of -1.259450. These results are similar to the evidence obtained by Chimobi (2011) with Chimobi and Igwe (2010) cited in Oluwafadekemi and Adeyemi (2018), Sharma and Mittal (2019), Tung (2018), Mandara and Ibrahim (2018), Mandara and Ibrahim (2018) Ravinthirakumaran and Kasavarajah (2016), Orkoh and Owusu (2016), Anantha and Gayithri (2016). However, it contradicts the findings of Nwanna and Nkiruka (2019), Yohane and Priviledge (2018), Hussain and Haque (2017), Momodu and Monogbe (2017) and Goitsemodimo, Yohane and Priviledge (2018) that concluded that fiscal deficit boosts economic growth. The evidence would have accentuated from the long stretch and incessant fiscal deficits experienced in the Nigerian economy, which its financing is yet to translate into economic prosperity. Rather, the financing sprout several linkages that continued to swallow scarce economic resources. It is impossible for the benefits of fiscal deficit to be harnessed by an economy which is not properly diversified. The reason for this is that deficits have to be financed through borrowings which might in turn increase the fiscal deficit rate (Oluwafadekemi & Adeyemi ,2018).

On the contrary, economic growth exhibits a significant and positive response to internal borrowing, as a unit increase in inflation results in 0.44 increases in economic growth in the long run. This implies that the average level of internal borrowing falls within the board acceptable to stimulate economic growth. The indicator of external reserve, though significant but exerts a negative impact on economic growth. This is contrary to the a priori expectation, and only confirms the relatively weak strength of intermediation of the external sources in providing required credits to the deficient productive sector of the Nigerian economy.

5. Conclusion and recommendations

The study sought to determine the *nexus* between fiscal deficits and economic growth in Nigeria over a time span of 1980-2018. The research presents a review of conceptual issues, theoretical, empirical and methodological issues observed in the extant literature. It adopted the Keynesian theory of economic growth, which was further used to specify the error correction model.

The evidence from the Johansen co - integration analysis shows a significant positive relationship between fiscal deficit and economic growth in Nigeria over the long run. The a priori expectations of internal borrowing and way and means were met. However, the a priori expectations for external borrowing and external reserve were not met. Some of the variables were statistically significant based on the values of their t-statistics. The ECM showed a good speed of adjustment of short run errors along the equilibrium path. Its negatively signed coefficient implies that there is a convergence towards the equilibrium path in the event of disequilibrium due to shocks.

The Nigerian government should adopt policies that are capable of expanding industrial output, namely price control and rationings. This will ensure that fiscal deficits do not lead to a very high inflation rate. In addition, fiscal and monetary policies should be integrated in such a manner that neither the public nor the private sector is handicapped as a result of finance shortage. Further, the Nigerian government should be decisive, proactive and concise about capital investments so as to avoid abandoned projects. Also, the financing of such investment should be within the optimal fiscal deficit level. This is expected to cause the fiscal deficit to bring about a positive effect on economic growth. It is equally advisable for government to implement alternative sources of revenue as soon as possible This strategy will assist the Nigerian economy in financing her expenditure and in paying her debts at the time that borrowings are made. Also, the alternative methods for financing the budget deficit, such as external debt, domestic debt and others must be handled effectively in order to promote long-term economic growth.

Finally, government should put a stop to unproductive foreign loans, wasteful spending and unregulated money

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supply while putting into structure the strategies designed for achieving increased and sustained productivity in economic sectors

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