DEFICIT FINANCING AND ECONOMIC GROWTH IN NIGERIAN

BY

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BEING A RESEARCH DISSERTATION SUBMITTED TO THE FACULTY OF MANAGEMENT SCIENCES, DEPARTMENT OF ACCOUNTING, BANKING AND FINANCE; FACULTY OF MANAGEMENT SCIENCES, DELTA STATE UNIVERSITY, ABRAKA, (ASABA CAMPUS)

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DECLARATION

I hereby declare that this thesis is my original work and has not been previously presented wholly or in part for the award of other degrees.

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CERTIFICATION

We the undersigned, certify that this research thesis titled *Deficit Financing and Performance of Nigeria Economy*. An Empirical Review is the original work of the candidate and has been fully supervised, and found worthy of acceptance in partial fulfilment of the award of Master of Science (M.Sc.) Degree in Banking and Finance.

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DEDICATION

To the Almighty God and my late brother Brigadier Glory Andrew Samson Buseni.

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ABSTRACT

Deficit Financing is a government policy of financing large public expenditure by borrowing money rather than by raising taxes. This started way back in 1961; it is used to stimulate the economy. Deficit financing has not accelerated the growth of the economy, but has created more economic crises. Government finds ways of financing the deficit through borrowing from domestic sources such as the issuing of treasury bills, FGN bonds, treasury certificates, treasury bonds and development stocks. Also depending on developmental projects or situations, government could resort to borrowing from external sources like multilaterals, Paris club, London club and others. This study examines the impact of deficit financing on the economic growth of Nigeria. In this research, the dependent variable is economic growth and it is measured by the Gross Domestic Product (GDP) while the dependent variable is the deficit financing and the proxies for public, domestic and external debts. The empirical relationship between domestic debt and economic growth and also that of external debt and economic growth of Nigeria were examined with a view to bringing out the impact of deficit financing on the Nigerian economy. The analysis was guided by Simple Correlation of Pearson Product Movement Correlation Model with the Statistical Package for Social Science (SPSS 20.00). The study covers thirty-four years spanning from 1981 to 2014. Secondary data from the CBN statistical bulletin, Bureau of statistics bulletin and debt management office 2014 were used. The results show a positive relationship between public and domestic debts; and Gross Domestic Product and a negative relationship between external debt and Gross Domestic Product. In light of the findings, the researcher recommended that Government domestic public and domestic borrowed funds should be judiciously used and Government should increase her revenue base through tax reform programmes, and make viable agricultural and mineral resources policies.

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CHAPTER ONE

INTRODUCTION

1.1   Background to the Study

Deficit financing is when government has a budget deficit, it is as result of government total revenue less total expenditure in a year. According to Atanasovki (2004), when government rather than using tax borrows to finance her public investments. In the same form Gaber (2009) deficit financing arises due to budgetary deficit this is when total revenue is less than total expenditure. In 1970, there were much economic crises:

over-indebtedness and the debt burden in Nigeria, high inflation rate and poor investment performance due to exchange rate fluctuation and high-interest rate. According to Okoro (2013), this crisis where due to deficit financing in Nigeria. Deficit financing started in 1961.   The   policy was justified during the post-independence era, largely because of the need to expand the economy then.

From 1970, the country adopted the budgetary deficit policy because of huge public sector spending war reconstructions, wasteful spending, and mismanagement of the oil boom in the 1970's till the 1980's.

From 1982, there was a decline in crude oil export earnings, this reduced the national reserves and resulted to heavy borrowing to finance public investments. The fiscal deficit increased public spending, while revenue declined. Thus, leading to deficit financing as a practise in which government spends more money than it receives.

According to Collins (2003), the government planned to put more money into the economy than it takes out by taxation, with the expectation that increased business activity will bring enough additional revenue to cover the shortfall, it is also called deficit spending. In other words, it is the government spending in excess of revenues that a budget deficit is incurred which is financed by borrowing. In recent times, it is known that the current public debt growth is larger than the growth of the economy for most of the developing countries. It is expected that the growing public debt will cause problems in relation to its services.

1.2   Statement of the Problem

Presently the Nigeria debt profile has reached a level of serious concern to many scholars . Despite the fiscal policies introduced by the government, the current deficit financing growth has not brought any increase in the growth of the economy. Audu (2004) said that it is expected that the growing deficit financing will cause problems in relation to its Gross Domestic Product. There are more economic crises related to deficit financing like: inflation, unemployment, inequality levels still remain high, income per capital very low and massive infrastructure deficit. Billions of naira spent has no significant impact on the living standard of the citizens. However, in the need to secure better economic conditions, often the government is forced to implement expensive fiscal policies whose aim is to stimulate economic activities in the market and accomplish a higher level of economic growth.

Therefore, the central problem of this research is to empirically verify the existence of a causal relationship between deficit financing and economic growth in Nigeria.

1.3 Research Questions

Olannye (2006) research questions are questions which the researcher hopes answer. To this end, the following questions will illustrate the subject matter of the study.

(1)   What is the relationship between public debt and Gross Domestic Product in Nigeria?

(2)   What is the relationship between domestic debt and Gross Domestic Product in Nigeria?

(3)   What is the relationship between external debt and Gross Domestic Product in Nigeria?

1.4 Objectives of the Study

The major objective of this study is to examine the extent to which deficit financing has impacted on the economic growth of Nigeria. Thus, the general objectives are as follows:-

1.   To ascertain the effect of deficit financing on the Gross Domestic Product in Nigeria.

2.   To ascertain the effect of domestic debt on the Gross Domestic Product Gross Domestic Product in Nigeria.

3.   To ascertain the effect of external debt on the Gross Domestic Product Gross Domestic Product in Nigeria.

1.5   Research Hypothesis

To carry out an acceptable study on this topic, the following hypotheses were postulated.

H_{o1}:   There is no significant relationship between public debt and Gross Domestic Product in Nigeria.

H_{o2}:   There is no significant relationship between domestic debt and Gross Domestic Product in Nigeria.

H_{o3}:   There is no significant relationship between external debt and Gross Domestic Product in Nigeria.

1.6   The Scope of the Study

The study covers how the public, domestic and external debts of Nigeria has been acquired from the period 1981 to 2014. Therefore, the period under study covers 34 years.

1.7   Significance of the Study

Research is about adding to existing learning and filling a current crevice. The weight of deficit financing has involved extraordinary worry to the administration of Nigeria.

The study will resolve the lost certainty of people in general as respect to the structure of domestic debt and its effect on Nigeria economy.

The study looks to explore the immediate effect of deficit financing on the financial aspects of Nigeria by finding a long-run and causal relationship between deficit financing and monetary policy.

It is critical likewise to address various focal issues that are imperative to comprehending the chronicled assessment and fundamental qualities of the government's domestic and external debt in Nigeria.

1.8   Limitations of the Study

In carrying out the study, the followings are the limitations encountered by the researcher:-

Time: The time used for this study was very limited when compared to the abstraction of the topic as only a few schools have written a full research project on deficit financing, only articles which could not give enough information on the going concerned.

Scope: The span of a period of study was another limiting factor as the secondary data used was not easily gotten.

Finance: The finance involved in conducting this research is much because of sources and internet search for materials.

1.9 Definition of Terms

1. **Budget Deficit:** Government total spending, less total expenditure.

2. **Domestic Debt:** It is the total government debt in a country owned within the country.

3. **Economic growth:** The amount of goods and services produced per head of the population over a period of time.

4. **External Debt:** Is the total debt a country owes the foreign creditors.

5. **Government Revenue:** Is money received by a government

6. **Gross Domestic Product:** The total value of goods produced and services provided in a country during one year.

7. **Public Debt:** Is the total of all domestic and external debt.

8. **Public Expenditure:** The spending made by the government of a country on collective needs and wants such as pension, provision of infrastructure etc.

1.10 Organization of the Study

This study consists of five (5) chapters and will be presented in the following order:

Chapter one gives a detailed background to the study. This includes an introduction to the background deficit financing, objectives of the study, research questions, research hypothesis, scope, significance and limitations of the study.

Chapter two consists of theoretical, empirical and conceptual issues.

Chapter three provides the theoretical framework of the study and the methodology employed. It also contains the specification of the correlation model.

Chapter four covers the presentation, and analysis of the secondary data used, with the testing of the formulated hypothesis and the discussion of the findings.

Chapter five explains the findings of the research in detail, summarising and giving conclusion and recommendations; it also discusses the contribution to knowledge and recommendation for further studies.

CHAPTER TWO

REVIEW OF RELATED LITERATURE

2.1   Introduction

The Nigerian public debt has become a major economic policy, especially from the early 1980's till date. The government has made efforts to manage and minimize the crunching effects on the nation's economy. Such efforts range from various economic policies like: increase in money supply, taxation, restructuring agreements to debt conversion, and deliberate allocation of substantial resources particular to the authorities. However, the government's high spending does not increase public one on one, because higher expenditure increases Gross Domestic Product which reduces the initial cost.

According to Krugman (2009), deficit financing is a normal economic condition. The high public investment in the economy makes a better economy among which fiscal stimulation leads to more investments and raises the future potentials of the economy. This implies that in times of rises, the deficit spending policy will lead towards crowding out, however inverse to crowding in. After some time the liquidity will be accomplished again and the principles for typical financial reasonability will be reactivated. Anyway, one thing is certain that the nations must know not to support significant budget deficit.

The deficit budget policy is a celebrated instrument of fiscal policy used to expand the rate of economic growth of the nation. That method for financing was initiated after the two world wars, oil emergencies and current budgetary and monetary emergencies. There are three approaches to back the deficit – taxes, borrowing and monetization (inflation tax). The most famous model of deficit finance is borrowing, which is typically done by issue of government bonds. At the point when the administration is over-indebted tends through the central bank to purchase government securities which increment the cash stream and decreases the interest rate pressure. Be that as it may, it reduces the genuine estimation of cash and makes the future eccentric for the financial performers.

2.2   Conceptual Issues

2.2.1   Uses of Deficit Financing

The purposes of government using deficit financing are;

1.   Increasing the supply of money and bonds in the financial sector.

2.   During war times government borrow to buy arms and ammunition. However, this is harmful to the economy

3.   Government also strength private consumption and investment with borrowing.

4.   It allows nation building, improving infrastructions.

2.2.2 Limitations and Precautions of Deficit Financing

Santow (2006) expressed that Deficit financing is unavoidable under planned economic development to enact unutilized assets. It is important to the degree it can advance capital formation and economic development. If the borrowed money is use properly, it can put the government in a dangerous economic position. In the end, the bonds will be due for payment and the government must be set up to pay them off when this happens. When government bond is increased in the market, it will create competition of bonds, which will also increase interest rate. Interest rates across the nation will follow the same way, making it problem for some individuals to manage the cost of loans. Kola et al (2008) stated that: deficit financing ought to be utilized as a part of moderate measurements, watching on price index and controlling prices consumer products and vital raw materials. , ensure a relative increase in the accessibility of goods, concentrate on speedy yielding projects and control   money supply through taxation and borrowings.

2.2.3 Advantages and Disadvantages of Deficit Financing

According to Somogyi et al (2007) the followings are the advantages deficit financing;

There will be an increase in employment, development of economic and social overhead, increase in government and private infrastructures

From the point of view of Gyorgy (2009), Deficit financing in advanced countries is use to improve it capital ratios, while in underdeveloped countries it is use for increasing demand.

The problems facing developing countries are;

 The rate of economic development is slow compare to growth with the economy, revenues received are enough to provide full employment, living standard and capacity save are low, external borrowing is not easily accessible.

2.2.4 Inflationary Implications Of Deficit Financing

 According to Spilimbergo et al (2008) and Santow (2006): the followings are reasons of deficit financing resulting into inflation:

Increasing the supply of money and raise the level of income, general price increase of goods services, there is plenty of channels into which money can flow, non-homogeneity in productivity, resources in supply is perfectly inelastic, marginal cost will expand due increase in wages, Nwankwo (2004) distinguished approaches to minimize an inflationary pressure of deficit financing; appropriate disinflationary financial strategy, a prohibitive fiscal arrangement to control unimportant private venture, proper distribution of resources and creating import surpluses for expanding the supply of good.

2.2.5 Channels of Deficit Finance Effect on the Economy

According to Nwankwo (2004), the channels for public debt impact on the economy are the accompanying:

Direct impact on the interest rate needs to sell the larger supply of bonds. As the supply of bond increase, their prices tend to fall, and the market interest rate go up; however the private borrowing can reduced if credit offer is timelessly and elastic. The interest rate increment can be incidentally restricted from the inflow of capital. Future fiscal deficit can rise if the interest rate of the components of public expenditure tends to rise.

Government borrowing can have significant effect on the aggregate monetary exchanges. All things considered, the mental component will have an immense effect on the financial market and further on the budgetary soundness.

Through the work of Lehman and OECD other fascinating points of view of the impact of deficit financing are;

Crowding out effect is way that huge and long-lasting deficit will raises the real interest rate under a given level of saving and crowding out private investment. However, the economic activity can be expanded at a reduce rate of full employment at cost of declining interest rate that is sensitive investment demand.

Exchange rate crowding out - Larger international capital inflows in an open economy will reduce the effect of deficit consumption on the interest rate, the domestic currency all things being equal will appreciate. And on that way impact the

demand for tradable domestic goods and services, stimulate economic factors on the market and accomplish a higher level of economic growth.

Portfolio crowding: The possession of private assets can be reduced and puts pressure on interest rates. When the government bonds participate with raising part in the private portfolio, because wealth has growing effect on fiscal effectiveness.

2.3   Multiplier Effect

The fiscal policy represents to a solid instrument which through public expenditure and taxes can have an impact on the total interest of goods and services in the economy. The spending deficit policy, over public expenditure upon collected public revenues, is started in view of economic growth impact Through the household unit and firm choices that change the money supply or level of taxes, there is a circuitous effect on the total interest curve. Be that as it may, with public expenditure intercession from the government, there is an immediate impact on the aggregate demand curve.

In the event that we expect that the government made a purchase of some public great, autos, it will expand the aggregate demand. But is the amount of change the same as the initial public expenditure? In this manner, we are confronted with two macroeconomic impacts. The main, multiplier impact recommends that the development in the aggregate demand will be greater than the purchase. In any case, the second one "crowding out" recommends that the aggregate demand change will be smaller than the underlying public expenditure that can be seen latter.

Nonetheless, increased demand adds to the bigger engagement of workforce and higher profits of the organization. That sort of dynamic impact is exchanged to the worker compensation and other firm profits, which brings about an expansion of utilization of various goods and services. So the state demand for autos increased the demand for other company's items in the economy. Since the expansion in the aggregate demand is bigger than the underlying government expenditure, it is said that the government spending has a multiplying impact on aggregate demand. This suggests there is a criticism between the higher aggregate demand and the income which persistently leads towards higher demand, on the other hand to higher income, and so forth. Every one of these impacts suggests that the aggregate effect on demanded goods and services will be bigger in admiration to s Likewise, which could start a reaction from the investment side as an answer to the increased demand for goods and services. That would mean extra investment in the arrangement of the organization for the new plant, equipment et cetera. For this situation, the higher government spending produces higher investment goods demand. This is known as investment accelerator.

Multiplier impact could be accomplished from the consumer spending multiplier where the marginal propensity to consume (MPC) is the crucial element – the part of the additional income that the household consumes instead of saving it. The multiplier = $1+MPC+MPC2+MPC3+...=1/(1-MPC)$. It shows the demand for goods and services created upon 1m Euro of government expenditure.

The multiplier logic implies to any component of the GDP, and not only to government expenditure, as consumer spending, investment and net export. So, if it accuses decline in the net export of some country, for example, in the amount of 1 million Euros, the decline in countries goods will put pressure on the national income and subsequently will reduce the domestic consumer spending. With MPC = 4, the net export decline of I million Euro will mean a contraction in aggregate demand from 4 million Euro.

This is just the primary instrument of the fiscal policy, public expenditure, but there is another - taxes, which can also have effect on national income. That can be seen through the personal income tax.

Decrease this tax will expand the household income that the peoples take home, one part is saved and the other is consumed. Because of consuming changes, there is movement in the aggregate demand curve to the right. Opposite tax increase will reduce spending and move the aggregate demand curve to the left.

Along these lines, the multiplier and crowding out impact are also normal for the second instrument of fiscal policy. At the point when the nation raises spending and cuts the taxes, it causes an expansion in the earnings and profits hence further is an extra motivating force for expenditure. That is the multiplier impact. On the opposite side, higher income prompts greater demand for money that provokes higher interest rate movement. High interest rate make the borrowing more costly and lead toward a decrease in investment activity. That is the second, crowding out an impact. In any case, with regards to the taxes, it's vital to take into consideration the perception of

the households regarding the timely duration of the tax change. In the case of permanent decline of taxes, the main response will be bigger spending brought about by additional income impact and accordingly bigger aggregate demand. In opposite, when there is a temporary change in taxes, it will come about with little effect on aggregate demand

2.4   Crowding-out Effect

Crowding out impact shows up when the government borrowing affect the capital market sector with an appetite for loan able fund which crowd out private capital investments. To express this impact we use national savings identity (NSI) with exclusion of the foreign sector, $(G-T) = (S-I)$, $=>[(G-T) +I]=S$

The left half of the equation represents total demand for borrowing. It's constituted by two components:

1)   Loan able funds being demanded by the government, and

2)   Loan able funds demanded by the private investor for proposed capital investment. The supply for loan able assets is situated at the opposite side of the equation National Savings (S). Equilibrium interest rate (i0), meeting point for demand and supply for loan able assets A few financial experts, who support the debt deficit finance, think of it as legitimate that the capital flow connected with trade deficits ought to be taken over in light of the fact that the capital flow will bring down the interest rates and the crowding out impact would get to be

endurable or precluded. In the USA from 1984-1987 was the situation, when the deficit was financed from abroad. The situation was attributed to relaxed monetary policy other than the substantial spending deficit in that time frame. It is clear that the Treasury cannot always finance the deficit from abroad and look forward to loose monetary policy.

2.5   Debt Overhang Theory

Deficit financing has become a major problem   growth and stability in developing countries. Economists have looked at the various ways through which the external debt burden has affected two contending theories to be specific the debt overhang and crowding out theories.

When the debt repayment ability is less than the country's debt it is debt overhang. Krugman (1982) clarifies debt overhang as one disincentive". According to(Ayadi and Ayadi, 2008) " The tax disincentive here infers to debt, with huge debt service payments, it is expected that any future income accrued to potential investor would be taxed heavily by government to reduce the amount of debt service and this scares off the investors thereby leading to disinvestment in the overall economy and as such a fall in the rate of growth'   .In addition, Clement et al (2003)" expressed that external debt whereby the normal repayment amount of debt exceeds the actual amount at which it was contracted". This is situation with most developing nations. Nigeria debt in repayment 2004 was very high and in 2005 President Obansajo made a request for debt relief for Nigeria and the country was granted this in 2006.

Borensztein (1990) also defined "debt overhang as one where the debtor nation benefits very little from the profits on extra investment because of huge debt service obligations". The "debt overhang impact" becomes possibly the most important factor when accumulated debt stock discourages investors from investing in the private sector for fear of heavy tax placed on them by the government. This is known as tax debt accumulation and elevates investment up to a specific point where debt overhang sets it and the ability of investors to provide capital begins to weaken. Audu (2004) relates the idea of debt overhang to Nigeria's debt situation. He expressed that the "obligation administration load has counteracted fast development and improvement and has declined the social issues and stated that the debt service burden has prevented rapid growth and development and has worsened the social issues. Nigeria's expected debt service is seen to be increasing the function of her output and as such resources that are to be used for developing the economy are indirectly taxed away by foreign creditors in form of debt service payments" (Ekperiware et al, 2005). This has further increased uncertainty in the Nigerian economy which discourages foreign investors and also reduces the level of private investment in the economy.

Cohen (1993) and Clement et al (2003) observe that besides "the impact of high debt stock on investment, external debts can also affect growth through accumulated debt service payment which are likely to "crowd out" investment (private or public) in the economy". The crowding out impact refers to a situation whereby a country's income which is acquired from foreign exchange earnings is utilized to pay up debt service

payments. This restrains the assets accessible for use for the local economy the most majority of it is doused up by external debt service burden which decreases the level of investment. Tayo (1993) opined that "the effect of debt overhauling of growth is harming as a consequence of debt-induced liquidity limitations which decreases government expenditure in the economy. These liquidity imperatives emerge as a consequence of debt service requirements which move the center from developing the domestic economy to reimbursements of the debt". Public expenditure on a social infrastructure is decreased considerably and this influences the level of public investment in the economy.

Furthermore, some researchers have come up with other ways through which external debt may affect economic growth. According to (Borenstein, 1990) "external debt affects growth through the credit rationing effect which is a condition faced by countries that are unable to contract new loans based on their previous inability to pay".

2.6   Budget and Deficit Finance

For clarification of the relationship between's the budget and trade deficit known as "Twin Deficits" - it would be utilized the identity for national savings. This identity is found by putting into equation two sides of the national income. The first is the distribution of the output, Y=C+I+G+ (Exp-Imp), and the share of the income realized with the output sale, Y=C+S+T. Thusly, C+I+G+ (Exp-Imp) =C+S+T=> (G-T)=(S-I)- (Imp - Exp). The symbols are C-consumption; I-investment; S-savings; T-

taxes. The contrast between (G-T) - government expenditure and national tax incomes -represents the national budget balance. Represents the national budget balance if the balance is negative, there is a surplus in the national budget. The difference between (Imp-Exp) is the parity of the trade account. In the event that this is sure, and then there is a deficiency in the account, however in the event that negative - surplus in the trade account.

In the effort to describe the relationship between budget deficit and trade deficit, it is expected that the financing is made through the issue of bonds and that the money related and fiscal credibility are steady. As such, the central bank has a long notoriety of feasible monetary discipline, and will back off on account of monetization and irresponsible government spending that trigger deficits. However, the national debt is risk-free or with a low-risk.

 The expansion in demand for loanable assets by the government with a specific end goal to finance the budget deficit, the more stronger domestic currency makes the import "less expensive" for the local inhabitants and the export "costly" for foreign purchasers which will need to set aside more units of their currency for one unit of domestic currency. In this manner, the higher import in appreciation to the export deteriorates the trade account and the economy with the retention of the budget deficit under that sort of situation, it's reasonable that the relationship between the two deficit. At long last, budget misbalance (G-T) has an impact on the national budget and through, it the interest rate and exchange rate diversities, and at the end

worsen the trade account deficit. However, the central bank intervention to absorb the exchange rate pressure under fixed exchange rate and this will result in direct increase of monetary flow, inflationary tendencies and normally negative "crowding out" effect.

The relationship between the twin deficits was natural for the USA in the 1980 decade and 2002 and for Germany in mid-1990. Both nations were compelled to issue a lot of bonds keeping in mind to fund their budget deficits. The Americans had financed their enormous deficits and consumption, while the Germans financed the expenses infrastructures from the need for basic tasks in the previous Eastern Germany. The greater import than export makes a deficit in the current account however the domestic currency units are reinvested by the foreigners in securities with high rates of return. This in a short time makes capital inflow to expanding the supply, for loanable funds and moves the curve farom SS to SISI. Along these lines, capital inflow adds to achieving another lower level of interest rate equilibrium. Capital inflows renew the domestic savings (supply 100% of debt administration costs had been financed through tremendous capital flows accompanied by current account deficits. In mid-2000, for illustration, colossal net capital inflows from Asia - particularly China and Japan - had financed auto processing plants, genuine property investment, mortgaged securities and a greater part of highly trained labor intensive production sector. In this way, deficit policy infers current account deficiency, however in the meantime makes benefit from capital inflow that keeps low-interest

rates. To what extent can be maintained in this technique for bond finance? In this situation, sustainable' bond financed deficiency is characterized as something that can be over and again accomplished through the extra issue of bonds when the current bonds are expected. Until the inflation corrected (real) rate of government bonds is smaller than the growth rate of the economy, the deficits are characterized as practical and the model of national reserve funds identity financed with bonds that can be continuously implemented without issues. In any case, "unsustainable" deficit is the one that explodes and cannot be financed any longer by government bonds. As it were, the domestic and foreign investors decline to retain a bigger part of the public debt in their portfolios. At this point, the huge monetization is unavoidable, step, i.e. the "lost" or the interest rate real value of public debt surpasses economic growth rate.7In order to achieve a sustainable budget deficit, the bigger G-7 economies lean toward 5% rate of budget deficit from GDP. But far more strict condition is set with the Stabilization Pact or the EU, which requires 3% budget deficit in respect to GDP every country to become qualified for membership.

2.7   Causes of Deficit Financing

From a hypothetical perspective, "the reasons for deficit financing as according by Ardiyanto (2006) are similarly different". The primary cause of the deficit is that a few parts of government spending have an inherent growth multiplier that is much higher than the rate of growth of tax receipts. Government expenses can be separated into discretionary and non-discretionary. After some time, not-discretionary part

grows as a rate of aggregate budgetary costs, thereby reducing government's capacity to decrease costs without disappointing the electorate. Deficit brought about to meet national crises exhibit an exceptional situation where the use is caused with no contemplations for financial penances. Secondary reasons for deficit incorporate movements in government spending, changes in the focused environment, globalization, presence of shadow economies, extortion in government programs, the part of multinationals, and Income dissemination that influence private consumption expenditures. Amid times of economic downturn, governments regularly have a tendency to invigorate demand through either coordinate use on particular undertakings or through a reduction in direct taxes. Stimulation through direct cost is expected to expand employment or save jobs, while stimulation through a reduction in direct taxes is gone for increasing disposable income and, increasing disposable income and, therefore, consumption as well as investment, Chamberlain (2006) in his perspective have it that "diminishment in taxes does not necessarily lead to increased- consumption and its impact on increasing employment has a longer lag than that of direct expenses". Reduction in taxes on higher income group and corporations has not generally expanded investment since higher saving could be accumulated in bank accounts or in held profit by enterprises. It ought to be noticed that once taxes are decreased, it is hard to raise them for diminishing the budget gap at a later date. The role of competitive forces in the allocation of resources and setting prices particularly in free market economies has been lessening. Rivalry has been replaced as a general rule by oligopoly where a couple firms command a

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business part. Despite the fact that the number of purchasers is substantial, the item is not necessarily homogeneous; data is asymmetric; and the seller has extensive control in setting the price and output level. Oligopolistic firms impact decisions and issues to their own advantage by funding elections and campaigning on issues. This regularly prompts either unintended direct government costs or expanded tax expenditures adding to a deficit. Likewise, expanded globalization has a tendency to reduce the impact of local multipliers for income and employment due to leakages beyond the borders of a country. In this way, the growth of a business in a nation does not necessarily mean an expansion in employment in the nation as foreseen by chronicled income and employment multipliers. The presence of shadow economy additionally represents a few issues as this unaccounted bit of GDP outside the compass of fiscal measures increases the deficit by reducing potential tax revenue. Another reality that may impact deficit is extortion in government run programs that frequently prompts unintended abundance government expenditure. Government bureaucracies can likewise be incorporated into list of factors that affect deficits. Bureaucracy frequently prompts redundant government agencies that essentially perform the same task bringing about an expansion in government expenses without giving any extra benefits or services. In the expressions of Detragiache (2004), "Income distribution impacts both consumption and investments in a country". An outline measure of inequality of income is Gini index. The more unequal a country's income distribution, the more distant its Lorenz curve from the 45-degree line and the higher its Gini index.If income was distributed with perfect equality, "the Lorenz

curve would harmonize with the 45-degree line and the list would be zero;if income was distributed with perfect inequality, the index would be 100.

"Various studies have connected fiscal deficit as one of the reasons for current account trade deficit Gupta and Jadhav, (2009). The couple   concluded that fiscal deficits are caused by trade deficit" Aridyato, (2006). "With an expansion in openness of economies to external trade, i.e., globalization, it is alluring to treat trade deficit as a contributor to the fiscal deficit. Trade deficit could be seen as conceded exports. Along these lines it has an inter-temporal measurement, which is not naturally self-remedying. As seen here, the reasons for deficit vary and quite difficult to asset".

A variable that increases expenditure without producing remunerating incomes is ageing population. For the U.S., current middle age is 36.8 Years and is required to be higher in future. Future participants in the labor force will be a smaller number while population more than 65years of age will grow considerably. Subsequently, domestic consumption will reduce and Social Welfare, and healthcare expenses, will increase. Sadly, there is next to know that a nation can do to change its population pyramid.

2.8   Theories Underpinning Deficit Financing

One discovers three distinct schools of thought; these are Neoclassical, Keynesian, and Ricardian equivalence, each giving distinctive standards. Buderet (1989) gives a brief rundown of the three ideal models.

The Neoclassical school considers people arranging, their consumption over their whole life cycle. By moving taxes to future eras, budget deficits increase current consumption by accepting full employment of resources, the Neoclassical school contends that expanded consumption implies a decrease in saving.Interest rates must ascent to get balance the capital markets. Higher interest rates, thusly, result in a decrease in private investment. Moreover, there are Keynesian who provides a contention to develop as a result by making reference to the expansionary impacts of budget deficits. They contend that for the most part budget deficits result in an expansion in domestic which makes private investors more idealistic about the future course of the economy coming about them in investing more. This is as the "crowd-in" effect. It is significant here that the conventional Keynesian perspective varies from the standard Neoclassical worldview in two crucial ways. To begin with, it allows the "crowd-in" effects are unemployed. Second, it presupposes the presence of an extensive number of liquidity compelled people. The second supposition ensures that aggregate consumption is exceptionally sensitive to changes in discretionary income.

2.8.1 Keynesians School

Numerous conventional Keynesians contend that deficits need not a crowd-out private investment. Webb (1998) is an example of this group, "who suggests that increased aggregate demand enhance the profitability of private investments and leads to a higher level of investment at any given rate of interest. Subsequently, deficits may stimulate aggregate saving and investment notwithstanding the way that they raise interest rates. He presumes that the proof is in this manner that deficits have not crowded out investment. There has rather been 'crowding-in". It is important that it is contended that public capital crowds out or crowds-in private capital, contingent upon the relative quality of two contradicting powers:

(1)   As a substitute production for private capital, public capital tends to crowd out private capital; and

(2)   By raising the return to private capital, public capital tends to crowd-in private capital. Therefore, on parity, open capital will pack out or jam in private capital, contingent upon whether public capital will crowd-out or crowd-in private capital, depending on whether public and private capital are gross substitutes or gross complements, Furthermore, Webb argues, on the hand, "that higher public investment raises the national rate of capital accumulation over the level chosen (in an assumed national manner) by private area specialists; in this way, public capital spending way crowd-out private expenditures on capital goods on an ex-basis as individuals seek to re-build up an ideal inter-temporal allocation of resources". On the other hand, public

capital, especially infrastructure capital, for example, parkways, water framework, sewers, and airplane terminal, is liable to endure an integral association with private capital. Subsequently, the higher public investment may raise the marginal productivity of private capital and, in this manner, "crowd-in" private investment. Keynes evolution provided a framework on how fiscal deficit behavior should be analyzed. His earlier emphasis was on fiscal policy and deficit as components of aggregate demand. From this viewpoint, the Keynesians found no compelling reason to adjust the financial plan amid times of subsidence. Rather, the thought of the consistently adjusted spending plan, that is, the financial backing ought to be in parity on the arrived at the midpoint of over the business cycle - in surplus amid blasts. also, in deficit amid subsidence was created as a standard for financial conduct. "Taking after the subsidence of the risk of far reaching post bellum unemployment, in any case, the accentuation sparkled from the impact of financial arrangement on total interest to its impact on the parts of interest" (Fisher and Easterly, 1990). There is the Ricardian equivalence approach advanced by Barro (1989), who argues "that an increase in budget deficits say due to an increase in government spending, must be paid for either now or later, with the total present value of receipts fixed by the total present value of spending. Subsequently, a cut in today's taxes must be matched by an expansion in future taxes, leaving interest rates, thus private investment, unchanged". This hypothesis, presented by David Ricardo (the acclaimed

English established financial analyst), expresses that far-seeing tax - payers will increase their savings in light of the increased government borrowing, and that would keep the interest rates stable. This thought is known as Ricardian equivalence and has been as of late created by the American financial specialist Robert Barro.

Macroeconomists Bailey (1983); Carmishael (1982); among others are occupied with the relationship between private investment and public expenditure mainly because of the crowding-out effect of public spending. The "crowding out" impact reduces the capacity of the government to impact financial movement through fiscal measures. Besides, Turnovsky (1989) " argues that in the standard Neoclassical macroeconomic model, the method selected by the government to finance its spending program affects the levels of consumption, investment and net exports".. Such models expect that aggregate consumption is higher and national (private in addition to public) saving lower, if a given government spending project is financed by issuing bonds instead of through current tax collection. If resources are fully employed, so that output is fixed, higher current consumption implies an equal and offsetting reduction in other forms of spending. In this way, investment and/or net fares must be complete "crowded-out". It is significant that it is critical to recognize "financial" crowding-out which has been specified before and "asset" crowding-out which happens when the government contends with the private division on buying certain assets (gifted work, crude materials et cetera). At the point when the government segment grows, the private will contract in light of the expansion in costs of these assets because of an

abundance request by the government, thus this prompts a fall in investment and consumption by the private part. Accordingly, the government part's development crowds out the private area. It is significant here too that asset crowding-out is an essential issue to consider particularly in developing nations where assets are rare even infrequently to the private division, so any excess demand for these assets by the government will severely impinge private sector productivity.

Furthermore, Webb (1981) "asserts that financing the budget deficit by borrowing from 'the public implies an increase in the supply of government bonds". In order to improve the attractiveness of these bonds, the government offers them at a lower price, which leads to higher interest rates. The increase in interest rates discourages the issue of private bonds, private investment, and private spending. In turn, this contributes to the financial crowding-out of the private sector.

2.8.2 Post-Keynesian Economists

On the other hand, some Post-Keynesian economists contend that deficit spending is vital, either to make the money supply (Chartalism) or to fulfill the demand for savings in abundance of what can be fulfilled by private investment. Cartelists contend that deficit spending is consistently fundamental on the grounds that, in their perspective, fiat money is made by deficit spending: one cannot collect fiat money in taxes before one has issued it and spent it, and the measure of fiat money available for use is precisely the government debt- money spent however not gathered in deficiency spending starts things out. Cartelists argue that nations are fundamentally

different from households. Governments in a flat money framework which just have debt in their own particular coin can issue different liabilities, their fiat money, to pay off their interest bearing bond debt. They cannot go bankrupt automatically on the grounds that this fiat money is what is utilized as a part of their economy to settle debt, while family unit liabilities are not all that utilized. This perspective is abridged as But it is difficult to see how the idea of "spending plan busting" applies to an government which as a finance issuer or its own currency, Proceeding in this vein, Chartalists contend that a basic deficit is important for financial dev elopment in an extending economy: if the economy develops, the money supply ought to also, which ought to be refined by government deficit spending. Private segment savings are equivalent to government area deficits, to the penny. Without adequate deficit spending, money supply can increment by expanding budgetary influence in the economy, the measure of bank cash develops, while the base money supply stays unaltered or develops at a slower rate, and in this manner the proportion (influence = credit/base) builds which can prompt a credit bubble and a money related emergency. Cartelism is a small minority view in financial matters; while it has had advocates throughout the years, and impacted Keynes, who particularly credited it, it is completely dismisses or overlooked by for all intents and purposes all contemporary standard business analysts. An eminent advocate was Ukrainian American financial expert Abba P. Lerner, who established the school of Neo-Cartelism, and supported deficit spending in his hypothesis of practical account. A contemporary focus or Nco-Cartelism is the Kansas City School of financial aspect.

2.8.3   The Monetarist Theory

Another argumentative issue is whether bigger financial deficits are connected with higher inflation. Sergeant and Wallace's (1985) "monetarist math" answers this question certifiably, by and by, the relationship is obscured in light of the fact that government funds deficiencies by acquiring and additionally by printing money. "The relationship is further mutilated by different impacts, for example, insecure cash request, inflationary conversion scale deteriorations, boundless indexation, and inflationary desires" Ariyo et at, (1991); Dornbusch and Fisher, (1991).

Be that as it may, regardless of whether deficit financing is inflationary relies on upon source of borrowing and the effect on money supply, For case, when central banks purchase government securities, they pay for them by issuing powerful cash, in this manner expanding cash supply. "Equally, when the government borrows from the public, it doesn't just get additionally spends leaving powerful cash in the hands of the general population unaltered, aside from a brief passing period between the offer of securities and uses by government" Klindo, (1993).

Government's resort to money creation to fund its consumption expands the ostensible supply of cash and consequently increases demand for goods and services, if the yield does not develop couple to take care of this expansion in demand, upward weight on costs will come about. In synopsis, inflation would come about because of expanded government deficit which is financed by money creation, in most developing countries, including Nigeria, poor and deficient tax programs make government not able to produce enough finances for expenditures. Thus, the

compatibility of the arrangement of financing government consumptions by the formation of cash gets to be unavoidable. With full employment of assets accomplished. Aghevei and Khan, (1999) and Tanzi, (1999), "demonstrated that swelling duty can be utilized as instruments to fund interest in developing nations. In any case, full employment circumstance infrequently holds in most developing nations". It has been argued by some economists that inflation has no feedback effect the unidirectional reason for inflation has been addressed by a few different studies which bolstered the causation of inflation as running both ways.

2.9   Deficit Spending

According to Williams et al (2005), "deficit spending is the amount by which spending exceeds revenue over a particular period of time, also called simply deficit, or budget deficit, the opposite of budget surplus". The term may be applied to the budget of a government, private company, or individual. Government deficit spending is a central point of controversy in economies as discuss below;

2.9.1 Controversy behind Deficit Spending

Government deficit spending is the main issue of debate in financial matters, with noticeable market analysts holding varying perspectives. The standard financial matters position is that deficit spending is alluring and important as a major aspect of countercyclical fiscal policy, yet that there ought not be an auxiliary structural deficit: run deficits amid retreats to make up for the setback in aggregate demand, however run surpluses in blast times so that there is no net shortfall over a monetary

cycle, i.e., just run repetitive shortages. This is gotten from Keynesian financial aspects and picked up acknowledgment (particularly in the Anglo-Saxon world).

2.9.2 Keynesian Effects

Taking after John Maynard Keynes, numerous financial experts prescribe deficit spending to direct or end a retreat, particularly a serious one. At the point when the economy has high unemployment, an expansion in government buys makes a business opportunity for business yield, making salary and empowering increments in shopper spending, which makes further increments in the interest for business yield. (This is the multiplier impact). This raises the genuine Gross Domestic Product (GDP) and the occupation of work, and in the event that all else is steady, brings down the unemployment rate. (The association between interest for GDP and unemployment is called Okun's Law.

The expanded size of the business sector, because of government shortages, can assist animate the economy by raising business gainfulness and impelling confidence, which empowers private settled interest in processing plants, machines, and so forth to rise. This quickening agent impact invigorates request promote and empowers rising work. The expansion in government finance has been appeared to discourage the economy over the long run.

Correspondingly, running a government surplus or diminishing its deficit decreases buyer and business spending and raises unemployment. This can bring down the

inflation rate. Any utilization of the government deficit to control the large scale economy is called fiscal policy.

A deficit does not just stimulate demand. On the off chance that private investment is fortified, that builds the capacity of the economy to supply yield over the long run. Additionally, if the government's deficit is spent on such things as base, fundamental examination, general wellbeing, and instruction, that can likewise expand potential yield over the long run. At last, the appeal that a government deficit gives may really permit more prominent development or potential supply, taking after Verdoorn's Law.

There is, however, a danger that deficit spending may create inflation or encourage existing inflation to persist. (In the United States, this is seen most clearly when Vietnam-war era deficits encouraged inflation.) This is especially true at low unemployment rates (say, below 4% unemployment in the U.S.). But government deficits are not the only cause or inflation: it can arise due to such. Supply-side shocks as the "oil crises" of the 1970s and inflation left over from the past (inflationary expectations and the price/wage spiral). If equilibrium is located on the classical range of the supply graph, an increase in government spending will lead to inflation without affecting unemployment. There must also be enough money circulating in the system to allow inflation to persist -so that inflation depends on monetary policy.

2.9.3 Fiscal Conservatism

Advocates fiscal conservatism reject Keynesian by belligerence that government ought to dependably run balanced budget (and a surplus to pay down any extraordinary debt) and that deficit spending is a constantly awful approach. Financial conservatism has scholastic backing, transcendently connected with the neoclassical-slanted Chicago school of financial aspects, and has significant political and institutional backing, with everything except one condition of the United States (Vermont is the exemption) having an adjusted spending alteration to its state constitution, and the Stability and Growth Pact of the European Monetary Union rebuffing government deficit of 3% of GDP or more noteworthy. Advocates or financial conservatism go back to Adam Smith, author of cutting edge financial matters. Fiscal conservatism was the prevailing position until the Great Depression, connected with the highest quality level and communicated in the now obsolete Treasury View that administration financial arrangement is incapable.

The ordinary dispute against deficit spending, dating to Adam Smith, is that families should not run deficits- one should have cash before one spends it, from prudence - and that what is a good fit for a family, is a good fit for a nation and its government. A further conflict is that debts must be repaid, and in like manner it is burdening future periods to run deficits today, for no expansion. A similar conflict is that deficit spending today will require expanded tax collection later on, in this way upsetting future periods. Others contend that since debt is both owed by and owed to private

individuals, people, there is no net commitment weight of government obligation, just wealth trade (redistribution) from the people who owe a commitment (government, bolstered by nationals) to the people who hold commitment (holders of government bonds).

A related line of conflict, associated with the Austrian school of money related angles, is that organization deficiencies are inflationary. Something other than delicate or direct swelling is all around recognized in monetary matters to be an unpleasant thing. For all intents and purposes this is fought to be in light of the fact that organizations pay off commitments by printing money, extending the money supply and making swelling, and is taken further by some as a conflict against fiat money and for hard money, especially the most elevated quality level. The typical contention against deficit spending, dating to Adam Smith, is that family units ought not run deficits - one ought to have money before one spends it, from judiciousness - and that what is right for a family unit, is right for a country and its government. A further contention is that debts must be reimbursed, and accordingly it is burdening future eras to run deficits today, for almost no increase. A comparative contention is that deficit spending today will require increased taxation later on, in this manner troubling future eras. Others contend that since debt is both owed by and owed to private people, individuals, there is no net obligation weight of government debt, just riches exchange (redistribution) from the individuals who owe an obligation

(government, supported by citizens) to the individuals who hold obligation (holders of government bonds).

A related line of contention, connected with the Austrian school of financial aspects, is that administration shortfalls are inflationary. Something besides gentle or direct swelling is by and large acknowledged in financial matters to be a terrible thing. Practically speaking this is contended to be on the grounds that administrations pay off obligations by printing cash, expanding the cash supply and making swelling, and is taken further by some as a contention against fiat cash and for hard cash, particularly the highest quality level.

2.9.4 Government Deficits

At the point when the expense of government purchases of goods and services, in addition to its exchanges (stipends) to people and enterprises, notwithstanding its net interest installments) exceed its tax revenues, the government budget is said to be in deficit; government spending in abundance of tax receipts is known as deficit spending. Governments more often than not issue Government bonds to match their deficits. They can be purchased by its Central Bank through Quantitative facilitating. Something else, the debt issuance can build the level of (i) public debt,(ii) private part total assets, (iii) debt service(interest installments) and (iv) interest rates crowding out. Deficit spending may, in any case, be reliable with public debt staying, steady as an extent of GDP, contingent upon the level of GDP the inverse of budget deficit is budget surplus for this situation, tax revenues surpass government purchases

and transfer payments. For the general population segment to be in deficit infers that the private division (local and remote) is in overflow. An increase in public indebtedness must necessarily, in this way relate to an equivalent reduction in private part net indebtedness. As such, deficiency spending grants the private division to amass total assets. On average, through the economic cycle, most governments have traditionally tended to run budget deficits; this can be seen from the large debt balances accumulated by governments across the world.

2.9.6 Loanable Funds

Numerous financial analysts trust government deficits impact the economy through the loanable assets showcase, whose presence Chartalists and other Post-Keynesians question. Government borrowing in this business sector increases the demand for loanable assets and in this way (overlooking different changes) pushes up interest rates. Rising interest rates can "crowd out" (debilitate) settled private speculation spending, offsetting a few or even the greater part of the demand boost emerging from the deficiency and may be harming long-term supply-side growth. Be that as it may, expanded deficits additionally raise the measure of aggregate salary received, which raises the measure of saving done by people and enterprises and along these lines the supply of loanable assets, bringing down financing costs. Subsequently, crowding out is an issue just when the economy is as of now near full employment (say, at around 4% unemployment) and the degree for expanding salary and sewing is hindered by asset limitations (potential yield). In spite of government debt that

surpassed GDP in 1945, the U.S. saw the long-thriving of the 1950s and 1960s. The development of the "supply side", it appears, was not hurt by the expansive deficiencies and obligations.

A government deficit expands government debt. In the U.S., the government borrows by offering bonds (T-bills, and so on.) as opposed to getting advances from banks. The most critical burden of this debt is the interest that must be paid to bondholders, which confines a government's capacity to raise its costs or slice assessments to accomplish different objectives.

2.9.7 Unintentional Deficits

Not all national government deficits are purposeful, a consequence of strategy choices. At the point when an economy goes into a subsidence (say, because of fiscal policy), deficits normally ascend, in any event in the U.S. also, other vast, rich, nations: with less financial action, a generally dynamic expense framework taking into account monetary action (pay, consumption, or exchanges) infers that duty incomes consequently fall. So also, exchange installments, for example, unemployment protection advantages and sustenance stamp gifts rise.

By complexity, different wellsprings of duty income, for example, riches charges, strikingly property assessments, are not subject to subsidence; however, they are liable to resource value bubbles.

The dependence of California on state pay charge, as opposed to property charge, because of property duties being restricted by Proposition has been referred to for

instance of the risks of a salary charge dependent assessment framework and a reason for the 2008-10 California spending emergency.

2.9.8 Automatic versus active Deficit Policies

Most financial analysts support the utilization of programmed adjustment over the dynamic or optional utilization of deficit to battle gentle retreats (or surpluses to battle expansion). Dynamic approach making takes too yearn for lawmakers to found and too long to influence the economy. Regularly, the pharmaceutical finishes Lip influencing the economy simply after its illness has been cured, leaving the economy with reactions, for example, swelling. For instance, President John F. Kennedy proposed tax reductions because of the high unemployment of 1960, yet these were initiated just 1964 and affected the economy just in 1965 or 1966 and the expanded obligation energized expansion, strengthening the impact of Vietnam War deficiency spending.

2.10   Balance of Trade and Current Account

Current and capital accounts are two components of balance of payment. The country's foreign trade (net capital inflow) is measure from the current account. Government private are included in the calculation. The surplus of the current account increases the country's net foreign asset, with the reverse decrease it.

The balance of trade is the difference between the country's imports and exports of goods and services. Trade deficit is when the country import is more than the export.

Positive net sale aboard generally contributes to current account surplus, whole current account deficit when the net sale current is negative.

Outflow is always presented as income payment and inflows as income receipt. Incomes are not only money receive from investments abroad but also moneys sent by individuals working abroad (remittance) to this family back home. If the country is paying more, the income account will be negative, the reverse is the case of the country as paying less.

Other subcategories in the income account are linked to specific areas in the capital account. These are factor payments, positive capital (asset), positive, or negative capital (debt). Rate of returns from different capitals are being determine by the central bank.

Balance of payment is when traditionally the current account is equal change in net foreign assets. The deficit inputs reduction in net foreign asset, in current Account as in net foreign asset.

An economy with current account deficit is absorbing (absorbing = DC + I − G) if positive, then it is producing. This can happen, when other economies are lending then saying to it, like debt, portfolio inversion or the economy is spending more of it.

Foreign reserves

When the absorbing is less than producing, the current account is surplus, saving are being invested abroad, foreign asset are hereby created.

How to Calculate Current Asset

Grade: Tangible items often traded by countries all over the world. When sold to a country is called export and when purchase by a country is called import.

Marks credits   -   outflow

Marks debt   -   Inflow

Service: These are intangible services e.g (Tourism)

Income: Money received from a company and individual from abroad.

Current Transfers: A foreign country providing current or service to another country. These are in form of donation aids and official assistance.

Formals: C A = x – M x NG x NCT

2.10.1.Interrelationships in the Balance of Payments

Missing changes in authority saves, the current account is the mirror picture of the total of the capital financial accounts one may then ask: Is the current account driven by the capital and financial accounts or is it the other way around? The customary reaction is that the current account is the primary causal component, with capital and financial accounts essentially reflecting financing of a deficit or investment of assets emerging as an aftereffect of overflow. In any case, all the more as of late a few spectators have recommended that the inverse casual relationship might be vital now and again. Specifically, it has been proposed that the United States current record deficit is driven by the longing of international investors to gain U.S. resources (see Ben Bernanke, William Poole joins underneath). Notwithstanding, the primary

perspective without a doubt remains that the causative component is the present record and that the positive monetary record mirrors the need to back the country's current account. Since 1989, the present record shortage of the US has been progressively huge, achieving near 7% of the GDP in 2006. In 2011, it was the most astounding deficiency on the planet. New confirmation, notwithstanding, recommend that the US current record deficiencies are being moderated by positive valuation impact, that is the US resources abroad are picking up in quality in respect to the local resources held by remote financial specialists. The U.S. net remote in this way, is not breaking down balanced with the present record shortfalls. The latest experience has switched this positive valuation impact, notwithstanding, with the US net remote resource position decaying by more than two trillion dollars in 2008. This was expected principally to the relative under-execution of residential responsibility for resources (to a great extent outside values) contrasted with the remote responsibility for resources (generally US treasuries and bonds).

2.11   Empirical Review

The motive behind deficit financing is to help economic growth and improvement of any Nation as an aftereffect of enormous debt and service payment. It represents a genuine danger to the economy of that Nation. Financial analysts, along these lines, tried to examines the ramifications of deficit financing on the economies of the country.

Darat (1998) utilized Granger causality to test the theory that huge spending deficiencies cause rising trade deficits, utilizing information from U.S. covering the period 1960-1984. He found that "the observational results only partially support the conventional view that a rising budget deficit brought about the 1980s acceleration in the U.S. exchange shortfall". He discovered proof of financial plan shortfall causality furthermore, maybe more grounded, confirmation of exchange to-spending deficiency causality".

Eisner (1991) estimates an OLS condition utilizing the proportion of net exports to GNP as the reliant variable and including the price-adjusted high-employment deficit as a rate of GNP as an illustrative variable. Utilizing the information over the period 1957-1988, he finds a constructive outcome of the budget deficit on the trade deficit, in spite of the fact that the evaluated coefficient is only marginally statistically significant. In any case, Eisner's model keeps away from the non-stationary issue inborn in utilizing information as a part of levels. Onufowara and Omoye (2006) tests the deficits speculation in the U.S. utilizing quarterly information for the period 1974-1988. He additionally tried the relationship between the trade deficit and three other "causal variables", gross domestic speculation, relative profitability, and the exchange rate risk premium.

Putunoi and Mutuku (2013) studies the effect of domestic debt on monetary development in Kenya over the period 2000-2010 utilizing the Engel-Granger remaining based and Johannes VAR based co integration tests and uncovered that

domestic debt markets assume an inexorably vital part in supporting financial development. They find that domestic debt development has a positive long-run and critical impact on financial development.

Sheik et al. (2010) research the effect of domestic debt on economic growth of Pakistan for the period 1972-2009 by applying ordinary least squares (OLS) system. The study finds that domestic debt positively influences economic growth in Pakistan suggesting that the assets created through domestic borrowing have been utilized partially to back those consumptions of government that add to the development of GDP. The standard is that domestic and additionally external debt ought to be spent for long term advancement purposes. Another explanation behind the positive relationship between domestic debt and economic growth in Pakistan might be that domestic debt is marketable.

Maana et al. (2008) investigate the effect of domestic debt on Kenya's economy covering the period 1996 to 2007 utilizing an adjusted Barro development regression model. The study established that domestic debt development had a positive however not critical impact on economic growth amid the period. Be that as it may, the study found no proof that the growth in domestic debt crowds out private sector lending in Kenya.

Abbas and Christensen (2007) analyzed optimal domestic debt levels in low-wage nations and developing markets between the period 1975-2004 utilizing Granger Causality Regression model and found that moderate levels of attractive household

obligation as a rate of GDP have noteworthy beneficial outcomes on monetary development. The concentrate additionally gave proof that debt levels surpassing 35 percent of total bank deposits negatively affect economic growth.

Adoufu and Abula (2010) examine the effect of domestic debt on the Nigerian economy during the period 1986-2005 using OLS technique. The findings reveal that domestic debt has negatively affected the growth of the economy and recommends that the government should introduce efforts to resolve the outstanding domestic debt.

Onyeiwu (2012) analyzed the relationship between domestic debt and economic growth in Nigeria. The result of this study found that domestic debt holding of government is far over a sound limit of 35 percent of bank deposit. This predicts a crowding out effect economic growth in Nigeria. The study suggested that government ought to keep up a debt bank deposit proportion below 35 percent, expansion its use of assessment income to back formative tasks and to divest itself of all projects, the private part can deal with while giving an enabling environment to private area financial specialists and in particular enhanced infrastructural facilities.

Aminu Umaru et al (2013), affirmed that domestic debts if legitimately manage can prompt high growth level. A noteworthy approach ramifications of this outcome is that deliberate exertion be made by policy makers to manage debts adequately by diverting them to profitable exercises (real sector),), in order to increase the level of output in Nigeria. Another policy ramification of the study is that most developing

countries get an obligation for selfish reasons as opposed to for the advancement of economic growth through interest in capital formation and other social overhead capital. The paper also recommends that government should rely more on domestic debt in stimulating growth rather than external debt.

Suliman et al (2012) carried out a study on the effect of external debt on the economic growth of Nigeria. Annual time series data covering the period from 1970-2010 was used. The empirical analysis was carried out using econometric techniques of Ordinary least squares (OLS), Augmented Dickey-Fuller unit root test, Johansen Co-integration test and error correction method. The co-integration test shows long-run relationship amongst the variables and findings from the error correction model revealed that external debt has contributed positively to the growth of the Nigerian economy. In addition, the study recommends that the Nigerian should ensure political and economic stability so as to ensure effective debt management. An empirical investigation conducted by (Audu, 2004) examines the impact of external debt on the economic stability so as to ensure effective debt management. An empirical investigation conducted by (Audu, 2004) examines the impact of external debt on the economic growth and public investment in Nigeria. The study carried out its analysis using time series data covering the period from 1970-2002. The Johansen Co-integration test and Vector Error correction method econometric techniques of estimation were employed in the study. The study concluded that Nigeria's debt

service burden has had a significant adverse effect on the growth process and also negatively affected public investment.

Another study by Ogunmuyiwa (2011) examined whether external debt promotes economic growth in Nigeria using time-series data from 1970-2007. The regression equation was estimated using econometric techniques such as Augmented Dickey-Fuller test, Granger causality test, Johansen co-integration test and Vector Error Correction Method (VECM). The results revealed that causality does not exist between external debt and economic growth in Nigeria.

Ayadi and Ayadi (2008) analyzed the effect of the tremendous external debt, with its overhauling prerequisites on economic growth of the Nigerian and South African economies. The Neoclassical growth model which external debt, debt indicators, and some macroeconomic variables were utilized and employed both Ordinary Least Square (OLS) and Generalized Least Square (GLS) procedures of estimation. Their discoveries uncovered that debt and its adjusting necessity negatively affects the economic growth of Nigeria and South Africa. Faraji and Makame (2013) examined the effect of external debt on the monetary development of Tanzania utilizing time series data on external debt and economic performance covering the period 1990-2010. It was observed the Johansen co-incorporation test that no long-run relationship between external debt and GDP. In any case, the findings show that external debt and debt service both significantly affect GDP development with the total external debt stock having a positive outcome of around 0.36939 and debt

service payment having a negative impact of around 28.517. Study also identified the need for further research on the impact of external debt on foreign direct investments (FDIs) and domestic revenues.

(Safdari and Mehrizi, 2011) investigated external debt and economic growth in Iran by observing the equalization and long term relation of five variables (GDP, private investment, public investment, external debt, and imports). Time series data covering the period 1974-2007 was utilized and the vector autoregressive model (VAR) technique of estimation was utilized. Their findings uncovered that external debt negatively affects GDP and private investment and public investment has a positive relationship with private investment.In their study on external debt relief and economic growth in Nigeria, in Nigeria, (Ekperiware and Oladeji, 2012) analyzed the structural relationship between external debt and economic growth in Nigeria. The study utilized the quarterly time series data on external debt, external debt service and real GDP from 1980-2009. An exact examination was led utilizing the chow test technique of estimation to decide the structural impact of external debt on economic growth in Nigeria as an aftereffect of the 2005 Paris Club external debt relief. The aftereffect of their finding uncovered that the 2005 external debt relief brought about a structural break impact in the relationship between external debt and economic growth. In light of these findings, they presumed that the external debt relief made available resources for growth-enhancing projects.

2.12 Conceptual Review on Deficit Financing

This section reviews literature on the relationship between deficit fiancé and economic growth in Nigeria. However, some observers Abrego and Ross (2001), Nwankwo (2004), Omoruyi (2005) have held different perceptions about Nigeria's capacity or otherwise to service her debt.

This is to a great extent due to the enhanced income to the nation emerging from the export crude oil Nigeria's major export In addition, others have contended that awful administration, particularly amid the military rule, to a great extent, represented the mismanagement of the Nigerian economy and in this way, the general population ought to manage the brunt. Whatever position one holds, what seems unquestionable is the increasingly large debt service necessity which forces impressive weight on the Nigerian economy notwithstanding when the enhanced asset inflow is figured into the nation's money streams. For sure, the issue of sustainability of Nigeria's debt profile continued to be the focus of research and public debate until the recent initiative of the Paris Club of Creditors which appears to address the issue in a more meaningful way And, after it's all said and done the conditions and adequacy of the debt relief have continued on producing further debate.

To fund financial improvement and upgrade the pace of monetary development, Sachs (2000) Stated that nations particularly in developing world, resort to foreign borrowing to supplement domestic savings, which are by and large low, for

investment. External sources of such resources include foreign direct investment and aid. These sources are not equally in terms with their growth-inducing potentials. Rostow (1971) observed that the right amount and blend of reserve funds, speculation, and remote guide are important for the developing economies to continue along a monetary development way which was trailed by the propelled economies. Clearly, these are non-obligation assets and in this way, demonstrating obligation may not be favored improvement financing instrument for creating economies particularly when not from concessional source.

World Staffs (2004) noticed that a key variable making obligation rise is the dependence on external assets to supplement capital formation in the domestic economy. The higher the interest payment and the heavier the deficit on the current account, the heavier the debt burden. In accomplishing the objectives of financing economic development, it is vital to recognize the attributes and ramifications of the real financing sources – the debt and the non-debt sources. A debt sourced financed represents funds resources of the nation as collateral. Keeping in mind the end goal to adapt sufficiently over the long run, with adjusting prerequisite, a country's obligation administration limit must develop at a rate higher than that of its budgetary danger presentation. The non-obligation assets, then again, speak to assets stream without altered or mandatory overhauling commitments on the administration. The size and consistency of such assets, however, rely on upon foreign financial specialists' view of the speculation environment in the beneficiary nation.

Available evidence, especially from Africa and Latin America, demonstrates that most creating nations take to external borrowing due to low domestic private investment funds in perspective of low per capita income and with most governments working monetary deficiencies. Thusly, the burden of external debt frequently bothers the issues of a work in progress and further disheartens remote direct investment without which the desired level and the rate of growth and development might be hard to accomplish.

In effect, Sachs (2000) suggests that portfolio analysis is a major activity that should be undertaken if a country is to avoid debt overhang. This involves active and continuous review of debt portfolio to quantify and monitor the level of debt services to ensure optimum structure and composition of debt vis-à-vis maturities, interest and exchange rate exposure. It highlights opportunities for portfolio improvement and identifies debt servicing difficulties.

This movement additionally includes the survey of financial foundation; portfolio by the creditors, borrower and the utilization of assets; the debt administration projection; genuine management of debt and additionally issues of institutional courses of action including certifications, methodology and data stream.

Asogwa R.C (2005) pinpoints that Nigeria is by all account not the only nation confronted with this heightening level of government indebtedness, yet when contrasted and another sub-Saharan district, that of Nigeria was seen to be bigger than the others by the years. Gbosi (1998) focused on that borrowing from the

domestic economy with a specific goal to back its domestic expenditure because of oil price collapse has increased rapidly. In addition, Claessens et al (1997) stipulated that the account debtor can just share incompletely in any increase in output and export in light of the fact that a small amount of that increase will be utilized to benefit the external debt His hypothesis, in this way, suggests debt reduction obligement (internal and external)) will prompt increased investment and reimbursement limit and accordingly, the portion of the debt exceptional turns out to will probably be repaid.

Ajayi et al (1998) posited that the issue of debt and absence of development are unmistakably interrelated. In his view, the exclusive stock of debt retards development and hamper the financial advancement of sub-Saharan African nations. The vast debt stock and crushing debt service burdens have now acquainted a vicious circle with the investigation of the advancement issue of these developing nations since debt overhauling notwithstanding lacking foreign earning prompts serious import strangulation. Import strangulation holds back export growth hence propagating import deficiencies as saw by Ajisafe et al. Fajana et al (1993) his opinion sees nothing wrong with external debt but that the debt crisis emanates from mismanagement of such funds. To him, borrowing is alluring furthermore unavoidable gab; while the second request is that such funds should be invested in viable project whose rate of return is higher than that of the interest rate on the loan. Assembled, he finished up by saying that for external debt to serve as a motor of

development it must be legitimately managed and the assets it makes gives to be wisely and proficiently used.

Ogwuma (1996) is the perspective that debts arise from advances and credit secured by the occupants if a nation from whatever is left of the world that is implied for overcoming any issues amongst saving and investment. He stipulated that when these assets are gainfully sent and used, they don't constitute of debt servicing acquiring nations like Nigeria need to adopt efficient external debt acquisition, deployment, and retirement. As per Omotoye (2006), Nigeria is the biggest indebted debtor country in the Sub-Saharan Africa. They likewise see, in a similar study Argentina since 1985 and kept on taking after an upward example, not at all like that of Argentina. The issue is intensified, by Green (1989), by the failure of the economy to create the imperative assets to meet reimbursement commitments, particularly since the mid 1980s. Fosu further demonstrates the seriousness of the obligation load brought by the pile debt (debt arrears payments as an extent of aggregate debt stock) as high as 5%. He reasoned that external debt has influenced investment extremely. Different findings incorporate the way that fiscal expenditure the balance of payments and worldwide interest rates are main considerations clarifying debt aggregation in the studied on nations. He, in this way, proposes measures that could mitigate the above issues (privatization, maintained fare advancement program, and rebuilding and improvement of capital markets, among others). Omotoye (2006) likewise clarified the income effects of debt as the "liquidity requirement" (a

lessening in current obligation debt services expands the present level of investments, for any given level of future indebtedness). Another impact identified is the decrease of moral hazard effect. Moral hazard impact infers debt diminishment to nations with a record of sound macro policies indicated by Armone (2005), ""inflation tax reduces public investments and uncertainty (option of waiting and misallocation of investments) are likely to occur with a large debt stock. Additionally, large debt stocks lead to capital flights, higher tax and continuous over-borrowing, with a negative effect on growt. The effect of enormous foreign debt is perceived by Mutasa (2003). According Amone (2005), the overwhelming debt burden and constant on nations of the north for hard currencies forms has been a noteworthy obstruction to quickened incorporation inside and crosswise over territorial groupings in Africa. There is a growing concern over the amount of borrowing indulged in, the servicing of such foreign debt, and the future strain on regional schemes and general sustainable development.

Assets exchanged abroad for debt servicing represents to a decrease in what can be committed to provincial plans and monetary advancement. Is potential territorial incorporation predestined as well as, additionally much of the time, past advancement accomplishments are being disintegrated. Debt repayments as unpaid debts have developed rapidly giving rise to questions with respect to the financial soundness of numerous nations. Then again, restrictively, connected with debt repayments and exchange, has obstructed northern creditors at the expense of intra-

regional trade Exacerbating this circumstance is the example of existing exchange. Existing exchange designs reflect solid vertical linkages (created creating nation) and feeble even linkages (between creating nations), which are symptomatic of an unequal worldwide parity of monetary force and obligation issues. In a late study, According to Amassoma (2011) "domestic debt as opposed, to external debt, will empower economic growth in Nigeria, this is on account of the reimbursement of the principal interest on such internal debt is a reinvestment into the domestic which would generally have a chain investment impact on the local economy. However, as for external debt, more assets will be expected to reimburse and benefit the debt, and this world impedes the beneficial outcome of this debt, on financial development. In this way government ought to depend more on domestic debt in animating development as opposed to external debt". Taking into account the writing uncovered above, the vast majority of the studies concentrated on the relationship between open obtaining and financial development while studies are yet to rise up out of the bearing of causality between public borrowing and economic growth in Nigeria. This paper examines the bearing of causality to educate the approach producers whether public borrowing advances monetary development in Nigeria or not. This will help the government to channel the assets from public debt suitably for the development of the economy.

2.13   Measurement of Budget Deficit

The expression "budget deficit or budget balance" appears routinely in news articles, in government policy documents - for the most part with the notice that it is extremely undesirable.

The estimation of budget balance likewise raises a large group of reasonable and pragmatic issues, which are aggravated by the absence of consistency in use nations. For instance, the customary budget deficit can be measured on a money premise or a collection (or payment order) premise. In the first case, the shortfall breaks even with the contrast between aggregate income use and fiscal revenue. In the second case, the deficit reflects accrued income and spending flows regardless of whether they involve cash payment or not. Accumulation of arrears on payments or revenue is reflected by higher deficit when measured on an accrual basis compared with a cash-based measure Steven, Steven, (2009). According to economic literature and practices by institutions such as the World Bank and IMF, a couple of different ways to measure the conventional budget deficit exists. The most commonly accepted measure used by government worldwide to define the conventional budget is the resources utilized by the government in a fiscal year that need to be financed after revenues were deducted from the expenditure.

According to Tanzi Santow (1999) and Mankiw (2009) and Caber (2009), the routine deficit can, along these lines, more often than not be characterized as the distinction between current incomes and expenditures of government. It in this way mirrors the

financing crevice that should be shut by method for net loaning, including loaning from the Central Bank.

This meaning of an ordinary budget deficit is, accordingly, autonomous from the development calendars of outstanding domestic public debt and the reasons identified with monetary policy Be that as it may, it additionally represents an issue: public debt management and open market transactions can, at last, extraordinarily impact the measure of the budget deficit The traditional spending deficiency was initially created with an end gossip to give a measure of the administration's commitment to total interest in the economy and the absence of harmony on the present record of the shortage of installment or to quantify "the crowding out of the private division in the budgetary markets. Another definition the traditional spending shortage could be an estimation of the degree to which government consumptions (for approach purposes) surpass government incomes without bringing about new liabilities", (as proposed by Leviathan in Reinhart et al (2010). Stein (2005) portrayed the ordinary estimation of the deficiency as a reflection or the present income position of government-figured by just utilizing the money receipts and trade use out a given day and age. Consumption incorporates interest installments yet bars reimbursements or open obliAlternative indicators to measure the diverse translations of financial strategy have progressively been utilized by a huge group of nations and worldwide associations, for example, the IMF, the World Bank, the OECD and the European Union (EU). Nations use distinctive meanings of the budget deficit basically due to

tradition, associations with different levels of government and the structure of their financial plans. Mexico and the UK further break down the general population segment getting necessity; while Australia, Canada and Germany concentrate on focal or government exercises; with Japan taking after a much smaller methodology by considering the focal government just partially'.

The routine budget deficit can be viewed as the assets required amid financial year after government income has been deducted from the total expenditure The last expenditure total includes interest payments yet no amortization of public debt Accordingly, the decision of a budget deficit is essentially centered around the interpretation and management of fiscal policy. There is no single predominant measure of the budget deficit an arrangement of various budget deficits estimations, each relevant to a particular condition.

2.14   Role of Fiscal Policies in Deficit Finance

Fiscal policy plays a very important role in determining internal and external economic development in any economy. In many countries, the government is directly accountable for a significant part of economic activity, and may indirectly influence the allotment of the resources in the private sector. There is no unique way to assess the sustainability of a government's fiscal position, but there exist a number of ways that can be helpful in showing different aspects of the fiscal picture. In particular, the budget deficit is a useful indicator of macroeconomic impacts on the economy and it's important for macroeconomic management. Consequently, to give

a proper diagnosis to the economic problems and to find sound fiscal policies, it is important to measure the government financial position in an appropriate way.

2.15 Budget Deficit, Wealth and Spending Effect

"There are many ways in which a government's choice of fiscal instruments may influence the country's net wealth (and the current account balance as part of the change in that net wealth). The most obvious way in which governments can use fiscal measures to affect net wealth and the current account balance is by their own expenditure" Gabar (2009).

Mankiw (2009) proposes that, the length of the rate of development of yield (y) surpasses the rate of interest (i), public debt is unambiguously net wealth The reason is that, in such conditions, future taxes are not important to benefit the debt. Economic growth will suit uncertain s deficits without risking the tax raising limit of the economy. On the off chance that' y is less than i, then the status of debt is questionable. Government debt will be viewed as "net wealth just to the degree that present era does not completely discount the increase in future tax risk to benefit the debt, which for this situation cannot be overhauled exclusively with incomes produced by economic growth" Essien (2008).If i surpasses y, and there is no essential excess (incomes less expenses net of interest payments), then the government debt will develop more quickly than the economy Abizadeh and Yousefi, (1966). What's more, Aschauer (1985) contends that government spending of different sorts may influence employment, output, consumption, and investment by

modifying the wealth or by straightforwardly influencing the minimal efficiency of work and private capital. He additionally brought up that the negative wealth impact connected with the brief ascent in government buys incites the operator to lessening utilization and increment work supply.

Yucel (2009) contends that the Ricardian comes about rely on upon "full employment", and most likely do not hold in Keynesian models. In the standard Keynesian investigation, if everybody believes that a budget deficit makes them wealthier, the subsequent development of aggregate demand raises yield and job and in this manner really makes individuals wealthier. This outcome holds if the economy starts in a condition of "automatic job". There may even be numerous sane desires balance, where the change in actual wealth agrees with the change in perceived wealth. This outcome does not imply that budget deficits increment aggregate demand and wealth in Keynesian models. Oshikoya (2008) contends that in the event that we had guessed that budget deficits made individuals feel poorer, the subsequent compressions in yield and unemployment would have made them poorer. So also, in the event that we had begun with the Ricardian idea that budget deficits did not influence wealth, the Keynesian results would have checked that guess. The odd component of the standard Keynesian model is that anything that makes individuals feel wealthier really makes them wealthier (in spite of the fact that the observation and reality need not compare quantitatively). This perception raises

questions about the definition of Keynesian models, however, says little in regards to the impacts of budget deficits Barro, (1989).

Ndekwu (2003) contend that over the long run, an economy's yield decides by its beneficial limit, which thus is incompletely dictated by its stock of capital. At the point when deficits reduce investment, the capital stock develops more gradually than it generally would. Over a year, or two, this crowding out of investment negligibly affects the capital stock. However, in the event that deficits proceed for 10 years or more, they can generously reduce the economy's ability to deliver products and administrations. Besides, review that budget deficits by diminishing national saving, must decrease either investment or net exports. Thus, they should prompt some mix of a small capital stock and more prominent remote responsibility for resources. In the event that budget deficits crowd out capital, national pay falls on the grounds that less is delivered; if budget deficits lead to trade deficits, the same amount of is created, however, less of the pay from generation collects to domestic residents.

Notwithstanding influencing total income, Ndekwu (2003) contend that deficits likewise modify element costs: compensation (the arrival to work) and benefits (the arrival to the proprietors of capital). As indicated by the standard hypothesis of factor markets the marginal product of labour determines the real wages, and the marginal product of capital determines real profits. When deficits reduce the capital stock the marginal product of labour falls, for each worker has less capital to work with. At the same time, the marginal product of capital rises, for the scarcity of capital more

valuable. In this way, to the degree that budget deficits lessen the capital stock, they prompt lower genuine wages and higher rates of benefit. Consequently, as indicated by Ball and Mankiw (1995), the aggregated impacts of the deficits adjust the economy's yield and riches. Fuso (2007) contends that if a government endeavors to enhance the present record parity by lessening its own spending on valuable base, the resulting decrease in net wealth is prone to surpass whatever advantage emerges from the more grounded current record. In the event that the government lessens its consumption abroad on such things as resistance or political movement that will have a tendency to reinforce the present record (and to that degree increment national net wealth). without decreasing, its costs inside the nation, so that there is no broad assumption that this type of diminishment in government expenses will diminish the level of action or domestic real investment.

By and large, government spending on beneficial capital (counting human capital) in substantial and profoundly industrialized nations presumably has moderately low import content (aside from those structures or capital venture connected with abroad military spending) A decrease in the general level of government spending on merchandise and administrations will frequently have a tendency to diminish local action more than imports (the UK is likely all case of such a nation). Then again, for nations that need to import quite a bit of their capital hardware, an ascent in government expenses on foundation may well be required to prompt a bigger current record shortage at given a level of movement. It is, also, conceivable that the

fortifying of the nation's swapping scale ensuing on the diminishment in the administration's cases for outside trade will effectively affect the productivity of the local business. This may decrease yield underneath limit and have unfriendly results for the nation in wording or both its level or business and genuine yield, furthermore of its net wealth (Mutasa). Moreover, Perkins brings up that the impacts on the current account or national net wealth, from various fiscal measures to invigorate investment are prone to differ extraordinarily with the degree to which a nation creates its own investment goods. This is prone to be a considerably more vital thought than whether the boost to venture is achieved by higher government infrastructure or by an expansion in expense concessions to private.

Claessens et al (1997) researched the effect of government spending in a two-area endogenous development model created, reached out to consider an endogenous utilization relaxation choice. They reasoned that there is a positive relationship between single amount financed government spending and growth rates. The clarification of this, as in May "endogenous development" models, is that the rate of development is emphatically identified with the rate of profit for human and physical capital amassing. The arrival on human capital collection is higher; the prominent is the part of the time spent working, in either segment. A higher rate of government spending produces negative riches impacts. As in Bailey, prompting a lessening in relaxation and an ascent in hours worked. Thus, the rate of development rises. In spite of the fact that administration spending raises the long-run development rate; it

decreases welfare since government spending is not exactly an impeccable substitute for private spending (where they culminate substitutes, the development rate would be unaffected). Additionally, when government spending is financed by a wage charge, or by a pay duty, the negative abundance of the ascent in spending on work supply clashes with a substitution impact, prompts a lessening in labor supply. For this situation, the spending increment dependably decreases the development rate. In this writing on the yield impacts of government spending, a transitory spending approach has just brief consequences for the level of yield Devereux and Love, (1995).

As indicated by Osiegbu and Onuorah (2013), there are a few noteworthy methods for financing budget deficit: printing cash, external borrowing, the use of foreign reserves, and domestic borrowing. The impacts of budget deficits on economic performance are not accurately caught on. Financial matters bring up positive and negative effects of substantial budget deficits. Specifically, the depicted above methods for financing budget deficits may negative impacts on the real of financial sides of the economy. Printing money may result in high rate of inflation.

External borrowing can end in excessive external debt that makes the country's access to international capital markets harder and increases the probability of a government's default on its external debt obligations. The use of foreign reserves may lead to the balance-of-payments crises. Domestic borrowing is usually associated with the increase in real interest rates.

CHAPTER THREE

METHODOLOGY

3.1   Introduction

The system is the technique and strategy utilized as a part of any given investigation or movement. It is an arrangement of standards, which are embraced to indicate how to achieve a specific determination or accomplish a given goal. As per Ndiyo (2005), research methodology enables researchers to focus their thought and action on their investigation and improve or maximize their chances of reasoned conclusion, as objectively as possible.Subsequently, this chapter will attempt to clarify the different strategies utilized by the researcher as a part of the study. Attempts were made to clarify the different variables in this research and how they are related. This enabled the researcher to draw an induction concerning a causal relationship between deficit financing and economic growth in Nigeria. This chapter is divided into the following;

1.   Research design,

2.   Population and sample size

3.   Data collection method,

4.   Operational measures of variables, and

5.   Data analysis technique

3.2   Population and Sample Size

Baridam (2001) opines that the target population is the entire population to which the findings of the study are applicable. He noted that the target population is the entire group of items which the researcher wishes to study and generalise. Also, Asika

(2000), Osuala (2005), and Ndiyo (2005) agreed that a population is a set of a large number of conceivable observations of any kind of people or events possessing some specified characteristics. In this research, the target population is Nigeria as a whole using deficit financing, whereas the accessible solution is the Federal Government that use public debt components (Domestic and External debt).

3.3 Data Collection Method

For the purpose of this research secondary data was collected from the Central Bank of Nigeria and National Bureau of Statistics, 2014.

3.4 Data Analysis Technique

Econometric application was used to analyse the data. Pearson Product Movement Correlation Model was the technique used to guide the process.

3.5 Model Specification

The model specifies the dependent variable, economic growth measured by gross domestic product (GDP) while the independent variable deficit financing proxies, public, domestic and external debts.

$$r = \frac{n\sum xy - \sum x \sum y}{\sqrt{n\sum x^2 - (\sum x)^2}\sqrt{n\sum y^2 - (\sum y)^2}}$$

Where:

x = Independent Variable

y = Dependent Variable

r = Correlation Coefficient

$(n\sum x^2 - (\sum x))^2$ = Standard Deviation of x

$(n\sum y^2) - (\sum y))^2$ = Standard Deviation of y

$(n\sum xy - \sum x \sum y)$ = Standard Deviation of xy

The Pearson Product Movement Correlation analysis of Statistical Package for Social Science (SPSS), version 20.0 was used for the study.

CHAPTER FOUR

DATA PRESENTATION AND DISCUSSION

4.1   Introduction

This chapter presents and analyse the findings in line with the objectives of the study.

The information of secondary data obtains from Central bank and National Bureau of

statistic, Nigeria (1981 to 2014) which is 33 years. The Pearson Product Movement

Correlation Model was used to test the hypothesis.

Thus, this chapter is presented in the following forms: Data Presentation,

Analysis of Data, Testing of Hypothesis.

4.2   Data Presentation

The information exhibited in table 4.1 and 4.2 are the estimations of the components

of deficit financing (Domestic and External debts) in Nigeria between the time of

1981 – 2014, while table 4.3 demonstrate the summation of the components of

domestic debts and external Debts (Total Public debt) to the economic growth rate of

Nigeria.

Table 4.1: Nigeria Domestic Debt (₦,00)

Year	Treasury Bills	FGN Bonds Bond	Treasury Certificates	Treasury Bonds	Development Stocks	Total
1981	5,782.00	0.00	2,057.60	0.00	3,353.00	11,192.60
1982	9,782.00	0.00	1,668.60	0.00	3,557.00	15,007.60
1983	13,476.00	0.00	4,894.40	0.00	3,851.00	22,221.40
1984	15,476.00	0.00	6,413.10	0.00	3,783.00	25,672.10
1985	16,976.00	0.00	6,654.10	0.00	4,319.00	27,949.10
1986	16,976.00	0.00	6,654.70	0.00	4,808.00	28,438.70
1987	25,226.00	0.00	6,654.10	0.00	4,909.00	36,789.10
1988	35,476.00	0.00	6,794.60	0.00	4,759.00	47,029.60
1989	24,126.00	0.00	6,944.60	11,350.00	4,629.00	47,049.60
1990	25,476.00	0.00	34,214.60	20,000.00	4,402.50	84,093.10
1991	57,763.10	0.00	34,214.60	20,000.00	4,221.00	116,198.70
1992	119,752.80	0.00	35,241.40	19,006.50	3,961.00	177,961.70
1993	116,380.70	0.00	36,584.30	117,139.70	3,731.70	273,836.40
1994	170,925.90	0.00	37,342.70	195,964.10	3,350.00	407,582.70
1995	276,905.20	0.00	23,596.30	174,062.39	3,170.00	477 ,733.89
1996	179,628.00	0.00	0.00	237,387.60	2,960.00	419,975.60
1997	364,523.50	0.00	0.00	134,387.60	2,840.00	501,751.10
1998	378,530.10	0.00	0.00	179,620.10	2,680.00	560,830.20
1999	361,758.40	0.00	0.00	430,608.20	2,440.00	794,806.60
2000	465,535.70	0.00	0.00	430,608.20	2,110.00	898,253.90
2001	584,535.80	0.00	0.00	430,608.20	1,830.00	1,016,974.00
2002	733,762.50	0.00	0.00	430,608.20	1,630.00	1,166,000.70
2003	825,050.00	72,560.00	0.00	430,600.00	1,470.00	1,329,680.00
2004	871,577.00	72,560.00	0.00	424,938.20	1,250.00	1,370,325.20
2005	854,828.40	250,810.00	0.00	419,268.20	980.00	1,525,906.60
2006	1,667,689.10	643,9 10.00	0.00	413,598.20	720.00	2,725,947.30
2007	2,533,265.30	1,186,160.00	0.00	407,928.20	620.00	4,127,973.50
2008	471,930.00	1,445.600.00	0.00	402,260.00	520.00	2,320,310.00
2009	787,480.00	1,974,930.00	63,030.00	392,070.00	520.00	3,218,030.00
2010	1,277,101.56	2,901,600.33	0.00	372,900.50	220.00	4,551,822.39
2011	1,727,914.36	3,541,198.85	0.00	353,730.50	0.00	5,622,843.71
2012	1971,312.17	3,891,217.99	0.00	364,820.70	0.00	5,712,854.89
2013	2,581,550.60	4,222,037.7	0.00	315,294.80	0.00	7,118,882.10
2014	2,815,520.00	4,792,280.00	0.00	296,220.00	0.00	7,904,020.00

Source: National Bureau of Statistics (NBS) 2014

Table 4.2: NIGERIA EXTERNAL DEBT (₦,00)

Year	Multilateral	Paris Club	London club	Promissory notes	Others	Total
1981	179.60	1,975.90	0.00	0.00	175.70	2,331.20
1982	530.40	5,474.40	1,981.70	0.00	832.90	8,819.40
1983	566.40	6,002.20	2,758.80	548.90	701.40	10,577.70
1984	1,271.20	6,360.40	5,443.70	1,155.10	578.30	14,808.70
1985	1,293.50	7,726.40	6,164.30	1,273.90	842.50	17,300.60
1986	4,670.70	21,725.30	8,444.70	4,152.60	2,459.10	41,452.40
1987	8,781.50	63,205.00	6,766.50	20,634.70	1,400.80	100,789.10
1988	9,991.80	75,445.30	14,986.10	25,742.1 0	7,791.00	133,956.30
1989	21,473.60	121,229.60	42,840.00	35,067.60	19,782.90	240,393.70
1990	34,606.30	154,550.60	53,431.80	40,950.50	15,075.20	298,614.40
1991	39,458.30	173,051.20	58,238.10	43,561.90	14,144.30	328,453.80
1992	89,274.30	324,729.90	41,890.60	64,140.00	24,229.30	544,264.10
1993	81,456.30	400,380.90	45,323.80	69,665.70	36,317.70	633,144.40
1994	97,056.60	404,212.60	45,367.90	70,069.10	32,106.80	648,813.00
1995	97,042.00	476,731.20	44,990.00	69,256.00	28,846.40	716,865.60
1996	102,630.00	420,002.00	44,946.00	47,080.00	2,662.00	617,320.00
1997	96,199.00	417,568.80	44,,946.00	35,475.90	1,742.20	595,931.90
1998	93,214.00	458,257.80	44,946.00	35,151.60	1,447.60	633,017.00
1999	361,194.90	1,885,064.80	187,627.10	136,523.80	6,363.80	2,577,374.40
2000	379,043.00	2,320,269.00	223,832.60	158,486.00	15,753.30	3,097,383.90
2001	313,504.70	2,475,509.40	228,950.20	144,746.20	13,580.50	3,176,291.00
2002	375,700.10	3,220,823.50	182,964.50	146,341.10	7,055.60	3,932,884.80
2003	413,877.70	3,737,279.90	196,156.90	123,994.60	7,020.20	4,478,329.30
2004	384,248.70	4.196,844.60	196,155.50	106,558.40	6,462.40	4,890,269.60
2005	330,654.40	2,028,580.10	189,768.40	85,526.70	60,542,60	2,695,072.20
2006	332,219.20	0.00	0.00	64,832.60	54,409.90	451,461.70
2007	363,448.79	0.00	0.00	0.00	67,631.05	431,079.85
2008	420,603.58	0.00	0.00	0.00	72,576.64	493,180.22
2009	524,208.11	0.00	0.00	0.00	66,232.97	590,441.08
2010	635,454.90	0.00	0.00	0.00	54,390.40	689,845.30
2011	723.109.26	0.00	0.00	0.00	73.723.36	805.832.62
2012	841,211,72	0.00	0.00	0.00	185,892.21	899,943.91
2013	986,800.18				401,500.00	1,383,300.18
2014	994,510.01				637,013.45	1,631,523.46

Source: National Bureau of Statistics (NBS) 2014

YEAR	GDP ₦0	TED ₦000	TDD ₦000	TED + TDD ₦000
1981	47,619.66	2,331.20	11,192.60	13,523.80
1982	49,069.28	8,819,40	15,007.60	15,007.60
1983	53,107.38	10,577.70	22,221.40	32,799.10
1984	59,622.53	14,808.70	25,672.10	40,480.80
1985	67,908.55	17,300.60	27,949.10	45,249.70
1986	69,146.99	41,452.40	28,438.70	69,891.10
1987	105,222.84	100,789.10	36,789.10	137,578.20
1988	139,085.30	133,956.30	47,029.60	180,985.90
1989	216,797.54	240,393.70	47,049.60	287,443.30
1990	267,549.99	298,614.40	84,093.10	382,707.50
1991	312,139.74	328,453.80	116,198.70	444,652.50
1992	532,613.83	544,264.10	77,961.70	622,225.80
1993	683,869.22	633,144.10	273,836.40	906,980.50
1994	899,863.22	648,813.00	407,582.70	1,056,395.70
1995	1,933,211.55	716,865.60	477,733.89	1,194,599.49
1996	2,702,719.13	617,320.00	419,975.60	1,037,295.60
1997	2,801,972.58	595,931.90	501,751.10	1,097,683.00
1998	2,708,430.86	633,017.00	560,830.20	1,193,847.20
1999	3,194,014.97	2,577,374.40	794,806.60	3,372,181.00
2000	4,582,127.29	3,097,383.90	898,253.90	3,995,637.80
2001	4,725,086.00	3,176,291.00	1,016,974.00	4,193,265.00
2002	6,912,381.25	3,932,884.80	1,166,000.00	5,098,884.80
2003	8,487,031.57	4,478,329.30	1,329,325.20	5,807,654.50
2004	11,411,066.91	4,890,269.60	1,370,325.20	6,260,594.80
2005	14,572,239.12	2,695,072.20	1,525,906.60	4,220,978.80
2006	18,564,544.73	451,461.70	2,725,947.30	3,177,409.00
2007	20,657,317.67	431,079.85	4,127,973.30	4,559,053.15
2008	24,296,329.29	493,180.22	2,320,310.00	2,813,490.22
2009	24,794,238.66	590,441.08	3,218,030.00	3,808,471.08
2010	33,984,754.13	689,845.30	4,551,822.39	5,241,667.69
2011	37,543,654.70	805,832.62	5,622,843.71	6,428,676.33
2012	40,544,094.14	899,943.91	5,712,854.89	6,612,798.80
2013	80,092,563.30	1,383,300.18	7,118,882.10	8,502,182.28
2014	89,643,625.20	1,631,523.46	7,649,002.10	9,280,525.56

Source: National Bureau of Statistics (NBS) 1981 – 2014

4.3   Analysis of Data

4.3.1   Analysis of Gross Domestic Product

Available data from the CBN and DMO in 2014 revealed that the GDP in real terms stood at ₦47,619.66, this was a continuous rise and at 1866, GDP was ₦69,146.99. The increase from 1986 to 1987 was about ₦105,222.84. This is about 38% increase. There was a steady increase from 1987 to 1994. In 1994 GDP was ₦899,863.22. The increase was from ₦11,411,066.91. In 2009 GDP was ₦24,794,238.66. However the increase from 2012 to 2013 was about 95% 40,544,099.94 in 2012 to 80 ₦80,092,560.00. In 2014 the GDP was ₦89,043,620.00.

4.3.2 The Trends in Nigeria's Domestic Debt:

Total domestic debt in 1981 stood at N11,192.60 million. It increased to N15,007.00 million in 1982 and by 1986 the outstanding domestic debt was N28,440.2 million and rose to N36,790.6million in 1987, showing an increase of N8,350.4 million between the two periods. Similarly, in 1990, domestic debt increased to N84,093.1 million from N47,031.1 million in 1988, showing an increase in N37,06 2.0 million between the two periods. It is pertinent for us to note that the increase in domestic debt between 1989 and 1990 is greater than that in the period 1986 and 1987 by N28,711.6 million. The reason for this

increase is that more money was needed by the government to finance its deficit budget. This was due to the fall in oil price in the international market.

In 1996, domestic debt outstanding rose astronomically to N343,674.1 million, increasing by almost five – fold to N84,093.1 million in 1990. By 2000 domestic debt had grown to N898,253.9 million showing an increase ofN554,579.8 million between 1996 and 2000.

The high rate of domestic debt continue to increase till 2004 to N1,016,994.0 million, N1,166,000.7 million, N1,329,692.7 million and N1,370,325.2 million in 2001, 2003 and 2004 respectively.

By 2006 in escalated to N2,725,947.30 million. However, relative to the year 2007 there was a decline in domestic debt to N2,320,310.00 million and N3,128,030.00 in 2008 and in 2009 respectively. The domestic debt profile again went up in 2010 with a total understanding debt of N4,551,822.39 million and by 2011 and 2012 total domestic debt stood at N5,622,843.71 million and N5,712,854.89 million respectively. Lastly, the Domestic Debt for 2013 was N7,118,882.10 and 2014 stood at N7,651,098.82.

In absolute terms, Nigeria's domestic debt had grown sky – rocketed over the decades with the effect that her domestic debt consumes a larger chunk of her Gross Domestic Product (GDP) thereby tending to decline in total output of goods and services.

4.3.3 Nigeria's External Debt; Historical Perspectives

Nigeria external debts are fundamentally from multilateral offices, Paris Club of Creditors, London Club of Creditors, Promissory Note Holders, Bilateral and Private Sector Creditors and different sources (Jhingan, 2004, and Salawu, 2005).

Following oil boom of 1980's, a thought of economic lightness was felt which proclaimed the consumption pattern favoring imported merchandise and unwinding of measures once set up as an aftereffect of oil value decay. Aimless importation exaggerated conversion standard administration, over-invoicing of imports and under invoicing of exports aggravated the issue.

The level of Nigeria obligation has been low before 1981, it remained at N2,333.2million.

In 1982, fall in oil cost was welcomed with monstrous external borrowing by elected and state governments from International Capital Market with no cognizant push to address the principle issue in the economy. At that period, there were abundance loanable assets in the western world known as Idle 'Petro-dollar'. These were reused as a credit with the guise that they were helping those nations to accomplish economic growth..

Nigeria external debt move from N8,819.40million in 1982 to N10,577.70million in 1983 and by 1986 total external debt has increased to

N41,452.40million. From 1987 Nigeria's external debt increase rapidly. N100,789.10million in 1987, N240,393.70million in 1989 and by 1995 it stood as N716,865.10million. It, however, dropped from N671,320.00million in 1996. The period of 1999 to 2005 witness the highest external debt profile. It rose from N633,017.00million in 1998 to N2,577,374.40 billion in 1999 and to N4,890,269.60million in 2004 which was the peak during under consideration. By 2005, President Obasanjo contended that Nigeria required debt relief as unmistakably she cannot service and pay her debts. This was granted in 2006. With respect to this preceding year, external debt dropped to N2,695,072.20million in 2005 and further dropped to N451,461.70million in 2006, N431,079.85million in 2007. The level of outside obligation, in any case, increment somewhat from what it was in 2007 to N493,180.22million in 2008. This was increased to N590,441.08 in 2009, and in 2010 it remained at N689,845.30. In 2011 the external debt was N805,832.62 and increased to N899,943.19 and N1,388,300.18 in 2012 and 2013 separately. By December 2014 external debt remained at N1,631,523.45.

4.4   Test of Hypothesis

As earlier stated, the effort was made to analyse and test the hypothesis to know if we have to accept or reject the null hypothesis.

Hypothesis 1: There is no significant relationship between public debt and Gross Domestic Product in Nigeria.

The hypothesis was tested with the Pearson Product Moment Correlation to compare the relationship at 0.05 level of significant.

Table 4.4a: Summary of significant relationship between Gross Domestic Product or economic growth and public debt

Variables	N	Mean	SD	df	r	P
Public Debt		2718145.22	2725291.05			
	34			32	0.827	<0.05
Gross Domestic Product		12873113.21	21650752.75			

Source: *Author's work, 2015*
Note*: *Significant at p<0.05*

From Table 4.4a, Pearson Correlation Coefficient $r = 0.83$, $p < 0.05$.

Thus, there is a positive relationship between public debt and Gross Domestic Product or economic growth.

With statistically significant value 0.00 is less than 0.05.

Therfore, public debt influnces Gross Domestic Product or economic growth. Hence the null hypothesis which says there is no significant relationship between a Gross Domestic Product or economic growth and public debt is rejected. Ho: p = 0

The finding of this study, therefore, shows that public debt in Nigeria has strength of association of Gross Domestic Product.

Hypothesis 2: There is no significant relationship between domestic debt and Gross Domestic Product

The hypothesis was tested with the Pearson Product Moment Correlation to compare the relationship at 0.05 level of significant.

Table 4.4b: Summary of significant relationship between domestic debt and Gross Domestic Product

Variables	N	Mean	SD	df	r	p
Domestic Debt		1601235.97	2190949.60			
	34			32	0.956	<0.05
Gross Domestic Product		12873113.21	21650752.75			

Source: *Author's work, 2015*

Note: *Significant at p<0.05*

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From Table 4.4b Pearson Correlation Coefficient r = 0.96, p < 0.05.

Thus, there is a positive relationship between domestic debt and Gross Domestic Product or economic growth.

With statistically significant value 0.00 is less than 0.05.

Therfore, domestic debt influnces Gross Domestic Product or economic growth.

Hence the null hypothesis which says there is no significant relationship between a Gross Domestic Product or economic growth and domestic debt is rejected. Ho: $p = 0$

The finding of this study, therefore, shows that domestic debt in Nigeria has strength of association of Gross Domestic Product.

Hypothesis 3: There is no significant relationship between external debt and gross domestic product

The hypothesis was tested with the Pearson Product Moment Correlation to compare the relationship at 0.05 level of significant.

Table 4.4c: Summary of significant relationship between external debt and Gross Domestic Product

Variables	N	Mean	SD	df	r	P
External Debt		1116909.25	1364592.97			
	34			32	0.117	>0.05
Gross Domestic Product		12873113.21	21650752.75			

Source: *Author's work, 2015*

Note*: *Significant at p>0.05*

From Table 4.4c Pearson Correlation Coefficient $r = 0.12$, $p < 0.05$.

Thus, there is a negative relationship between external debt and Gross Domestic Product or economic growth.

With statistically significant value 0.51 is greater than 0.05.

Therfore, external debt influnces Gross Domestic Product or economic growth.

Hence the null hypothesis which says there is no significant relationship between a Gross Domestic Product or economic growth and external debt is accepted Ho: $p \neq 0$

The finding of this study, therefore, shows that external debt in Nigeria has no strength of association of Gross Domestic Product.

4.5   DISCUSSION OF FINDINGS

In connection and relapse, whatever the units in which the autonomous (x) and ward (Y) variable is measured, a positive worth demonstrates that X and Y are emphatically related that is Y expanded proportionately as X increments, and a negative quality shows a negative factual relationship, that is Y diminishes as X increments. The nearer the P-value is to 0.05, the noteworthy the relation.

In this research, the formulated null hypothesis which affirms that there is no significant relationship amongst public and domestic debt and Gross Domestic Products in Nigeria was tested with basic Pearson Product Movement Correlation analysis utilizing the Statistical Package for sociologies (SPSS 20.0). The outcome demonstrates that the null hypothesis (H_0) is rejected in light of the fact that the relationship investigated demonstrates a significant impact on Public Debt (PD) and Total Domestic Debt (TDD). This infers in this manner that Public and Domestic Debt has a causal relationships to the economic growth in the Nigeria economy. We along these lines dismiss the hull hypothesis (H_0) and accept e the alternative hypothesis (H_1) which is significant for economic growth.

The second hypothesis was acknowledged given that the null hypothesis (H_0) is genuine on the grounds that the relationship examined demonstrates no critical impact on economic growth. This suggests along these lines that Total External

Debt (TED) do not have a causal association with the relationship on the economic growth of Nigeria. We subsequently accept the null hypothesis (H$_0$).

Table 1: Summary of Correlation Coefficient

Variable	Correlation	Significant level	Remark	Decision
Public debt	0.827	<0.05	Significant	Reject null hypothesis
Total Domestic Debt	0.956	<0.05	Significant	Reject null hypothesis
Total External Debt	0.117	>0.05	Not significant	Accept null hypothesis

Source: Researcher's Computation SPSS Output

Clearly, from the summary table, Public debt and total domestic debt shows a significance relation to the Gross Domestic Product, with a probability value of the t-test 0.000 < 0.05. The table also revealed a positive coefficient of the Public debt and total domestic debt to Gross Domestic Product. The coefficient of Public debt and Domestic debt shows a positive relationship to the Gross Domestic Product. They propel us to reject the null hypothesis and accept the alternative hypothesis. The external debt correlation reveals none significant of the variable as the probability of the t-statistic is *0.51>0.05*, we thereby accept the null hypothesis and conclude that external debt does not contribute to the growth of the economy rather the domestic debt.

CHAPTER FIVE

CONCLUSION AND RECOMMENDATIONS

5.1   Summary of Findings

Obviously, from the synopsis table, Public debt and total domestic debt shows a significance relation to the Gross Domestic Product, with a likelihood estimation of the t-test $0.000 < 0.05$. The table additionally uncovered a positive coefficient of the Public debt and domestic debt to Gross Domestic Product. The coefficient of Public debt and Domestic debts demonstrates a positive relationship to the Gross Domestic Product. They move us to reject the null hypothesis and accept the alternative hypothesis. The external debt relationship uncovers none huge of the variable as the likelihood of the t-statistic is $0.51>0.05$, we in this way accept the null hypothesis and reason that external debt does not contribute to the growth of the economy rather the domestic debt.

5.2   Conclusion

From the investigation, the heading of the impact between deficit financing on economic growth demonstrates a positive relationship. The deficit financing and economic growth have long run relationship and they are decidedly related if the administration is genuine with the advances got and it is utilized for improvement of the economy as opposed to channel the assets for their own

advantage. The expansion in budget deficit has developed as a reason advance for the increment in domestic debt was expected basically as appropriated in the yearly spending plan. These incorporate both capital and intermittent use, while the outside acquiring is for the most part from Multi-laterals money related foundations, the usage of the procedure are fixing to ventures – influence, farming, wellbeing, training, and different bases and human improvement.

5.3 Recommendations

From our findings, the following recommendations were made;

1. In order to decrease huge debt burden which forces stress on Nigeria Economy, the government should try and pay all debts.

2. There should be fiscal discipline on the part of the Government to avoid either mismanaged or embezzled.

3. Nigerian Government should go for domestic loans , when the principal interest on the loan is been paid it will serve as a Crowd – in – impact which will further accelerates economic activities in the nation.

4. The Government ought to fortify the fiscal policies to increase her revenue base. Elected, State and Local Government Boards of Internal Revenues ought to be reinforced in order to give a one-stop shop to tax collection. Different sources of revenues like stamp duties; levies and

fees collected by the state and local government should be enhanced. The utilization of data technology ought to be introduced so as to have an exhaustive database for the citizens.

5. Efforts ought to be made by Government to diversify the main revenue source from oil to another area of the economy, for example, agriculture, solid mineral industries, all will a attract direct and indirect tax.

6. The government ought to make policies to increase will domestic savings. The increase diminishes interest rate and economy domestic in investors.

7. The government ought to endeavor to balance trade deficit by diminishing import and expanding export.

8. The government ought to give more funds to EFCC and ICPC to investigate, arrest and persecute those found guilty of corruption cases.

5.4   Contribution to Knowledge

From The period under survey, the (1981-2014) the study adds to knowledge by developing a predictive model to examine the conduct of public debt and economic growth utilizing the Gross Domestic Product as an intermediary.

Much off Domestic debt will raise the real interest rate under a given level of investment funds and crowd out in the private sector, while external could raise

overhang where Nigeria benefit very little from the profits on additional investments due to the huge debt service obligation.

In the short run, the effect of the borrowed on the economy is sure. Over the long run, borrowed fund cost the depression in the economy due to mismanagement of fund.

The general population will now have more trust in the financial market since the government is bit by bit moving from short terms to long run securities as found in the Nigerian domestic debt table.

5.5   Recommendations for Further Studies

Deficit financing is a repetitive decimal in Nigeria economy since, independence and the government has assumed a predominant part in starting and financing economic growth. The growth is relied upon to be financed by income from sales of petroleum product. However, the income fall behind the level of public spending, leaving an extensive deficiency in the nation.

This prolong deficit financing in Nigeria has a positive inflation impact and a general negative effect on the economy by crowding out private investment.

The researcher will embrace a model which determined private investment (PI) as a component of five (5) illustrative variables

$$PI = \alpha + \beta_1 DCPS_1 + \beta_2 IR_2 + \beta_3 IN_3 + \beta_4 ER_4 + \varepsilon$$

Where:

PI: = Private Investment

DC = Domestic credit

IR = Interest rate

IN = Inflation

ER = Exchange rate

ε = Error Term

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APPENDIX

Appendix A: **TRANSFORMED DATA FOR CORRELATION TEST**

YEAR	GDP ₦0	TED ₦000	TDD ₦000	TED + TDD ₦000
1981	47,619.66	2,331.20	11,192.60	13,523.80
1982	49,069.28	8,819,40	15,007.60	15,007.60
1983	53,107.38	10,577.70	22,221.40	32,799.10
1984	59,622.53	14,808.70	25,672.10	40,480.80
1985	67,908.55	17,300.60	27,949.10	45,249.70
1986	69,146.99	41,452.40	28,438.70	69,891.10
1987	105,222.84	100,789.10	36,789.10	137,578.20
1988	139,085.30	133,956.30	47,029.60	180,985.90
1989	216,797.54	240,393.70	47,049.60	287,443.30
1990	267,549.99	298,614.40	84,093.10	382,707.50
1991	312,139.74	328,453.80	116,198.70	444,652.50
1992	532,613.83	544,264.10	77,961.70	622,225.80
1993	683,869.22	633,144.10	273,836.40	906,980.50
1994	899,863.22	648,813.00	407,582.70	1,056,395.70
1995	1,933,211.55	716,865.60	477,733.89	1,194,599.49
1996	2,702,719.13	617,320.00	419,975.60	1,037,295.60
1997	2,801,972.58	595,931.90	501,751.10	1,097,683.00
1998	2,708,430.86	633,017.00	560,830.20	1,193,847.20
1999	3,194,014.97	2,577,374.40	794,806.60	3,372,181.00
2000	4,582,127.29	3,097,383.90	898,253.90	3,995,637.80
2001	4,725,086.00	3,176,291.00	1,016,974.00	4,193,265.00
2002	6,912,381.25	3,932,884.80	1,166,000.00	5,098,884.80
2003	8,487,031.57	4,478,329.30	1,329,325.20	5,807,654.50
2004	11,411,066.91	4,890,269.60	1,370,325.20	6,260,594.80
2005	14,572,239.12	2,695,072.20	1,525,906.60	4,220,978.80
2006	18,564,544.73	451,461.70	2,725,947.30	3,177,409.00
2007	20,657,317.67	431,079.85	4,127,973.30	4,559,053.15
2008	24,296,329.29	493,180.22	2,320,310.00	2,813,490.22
2009	24,794,238.66	590,441.08	3,218,030.00	3,808,471.08
2010	33,984,754.13	689,845.30	4,551,822.39	5,241,667.69
2011	37,543,654.70	805,832.62	5,622,843.71	6,428,676.33
2012	40,544,094.14	899,943.91	5,712,854.89	6,612,798.80
2013	80,092,563.30	1,383,300.18	7,118,882.10	8,502,182.28
2014	89,643,625.20	1,631,523.46	7,649,002.10	9,280,525.56

Source: Central Bank of Nigeria & Debt Management Office 1981 − 2014

Appendix B: Descriptive Statistics

	Mean	Std. Deviation	N
Public Debt	2718145.2215	2725291.05092	34
Gross Domestic Product	12873113.2056	21650752.7490	34

Correlations

		Public Dept	Gross Domestic Product
Public Debt	Pearson Correlation	1	.827**
	Sig. (2-tailed)		.000
	N	34	34
Gross Domestic Product	Pearson Correlation	.827**	1
	Sig. (2-tailed)	.000	
	N	34	34

**. Correlation is significant at the 0.01 level (2-tailed).
b. Listwise N=34

Variables	N	Mean	SD	Df	r	p
Public Debt		2718145.22	2725291.05			
	34			32	0.827	<0.05
Gross Domestic Product		12873113.21	21650752.75			

Source: *Author's work, 2015*

Note: *Significant at p<0.05

Appendix C: Descriptive Statistics

	Mean	Std. Deviation	N
Domestic Debt	1601235.9676	2190949.59451	34
Gross Domestic Product	12873113.2056	21650752.7490	34

Correlations[b]

		Domestic Debt	Gross Domestic Product
Domestic Debt	Pearson Correlation	1	.956[**]
	Sig. (2-tailed)		.000
Gross Domestic Product	Pearson Correlation	.956[**]	1
	Sig. (2-tailed)	.000	

**. Correlation is significant at the 0.01 level (2-tailed).
b. Listwise N=34

Variables	N	Mean	SD	df	r	p
Domestic Debt		1601235.97	2190949.60			
	34			32	0.956	<0.05
Gross Domestic Product		12873113.21	21650752.75			

Source: *Author's work, 2015*
Note: *Significant at p<0.05*

Appendix D: Descriptive Statistics

	Mean	Std. Deviation	N
External Debt	1116909.2538	1364592.97389	34
Gross Domestic Product	12873113.2056	21650752.7490	34

Correlations[a]

		External Debt	Gross Domestic Product
ExternalDebt	Pearson Correlation	1	.117
	Sig. (2-tailed)		.511
Gross Domestic Product	Pearson Correlation	.117	1
	Sig. (2-tailed)	.511	

**. Correlation is significant at the 0.01 level (2-tailed).
b. Listwise N=34

Variables	N	Mean	SD	df	r	p
External Debt		1116909.25	1364592.97			
	34			32	0.117	>0.05
Gross Domestic Product		12873113.21	21650752.75			

Source: *Author's work, 2015*
Note: *Significant at p>0.05*