# BUDGET DEFICIT AND ITS IMPACT ON THE NIGERIAN ECONOMIC GROWTH AND DEVELOPMENT.

**BY**

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**BEING A PROJECT SUBMITTED TO THE POSTGRADUATE SCHOOL, AHMADU BELLO UNIVERSITY, ZARIA IN PARTIAL FULFILMENT OF THE REQUIREMENTS FOR THE AWARD OF THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION (MBA) OF AHMADU BELLO UNIVERSITY, ZARIA.**

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**January, 2013**

## Declaration

I hereby declare that the work in this project titled *Budget Deficit and its impact on the Nigerian Economic Growth and Development* has been performed by me in the Department of Business Administration. The information derived from the literature has been dully acknowledged in the text and a list of references provided. No part of this project report was previously presented for another degree of any university.

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## Certification

This to certify that this project titled *Budget Deficit and its impact on the Nigerian Economic Growth and Development* meets the regulations governing the award of the degree of Master of Business Administration (MBA) of Ahmadu Bello University Zaria and it is therefore approved for its contributions to the knowledge and literary presentations.

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## Dedication

To Engr Osemeilu Ihenyen.

**Acknowledgement**

All praise is due to Allah the All – Knowing for making me what I am today.

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**Abstract**

*The policy of deficit budgeting had grown tremendously in Nigeria between 1985 and 2008.The essence was to help accelerate the growth of capital in Nigeria using the policy of deficit budgeting as formulated by Keynes. The statement of the problem is: To what extent is the policy of deficit spending applicable to Nigeria as a tool for economic growth and development bearing in mind that Nigeria is a newly emerging industrialized country and that the policy of deficit spending has prominence in the Keynesian macroeconomic model, which was developed for conditions appropriate for developed countries. Categorically in Nigeria, the reverse seems to be the case. This is given to the fact that the major policy focus or thrust of SAP was to divest government in the operations of the economy and promote private sector driven economy through privatization programme. Yeit the government is still prominent in deficit spending. We seem to focus on classical ideas but tenaciously hold on to Keynesian conduct. Want to evaluate the impact budget deficit has on the economic growth of the economy. The study found out that a high positive relationship exists between Government Expenditure and the Economic Growth of the Nigerian Economy. From the analysis of hypothesis one the result represents a high positive relationship. A high positive influence of the budget deficit on the Nigerian economic growth. The analysis of hypothesis two depicted a very high positive influence of budget deficit on Nigerian economic growth. It is recommended that: at the present time states can only use public loans in order to cover the surplus of public expenditures over current incomes. As it supposes temporary redistribution processes of disposable resources already existent in the economy, this way of financing budget deficits generally does not have an inflationary character; the continuous concern of contemporary governments to reduce or to maintain, within acceptable limits, the budget deficits is justified, in order to fight against inflation and its negative effects; effort should be made by the government to settle the outstanding domestic debt. This will give room for proper conduct of monetary policy in the economy; it will be healthy if the government strive to finance budget deficit by improving on the present revenue base rather than resulting to domestic borrowing. This can be achieved by improving its revenue sources and efficient pursuit of tax reforms.*

# CHAPTER ONE

# INTRODUCTION

## 1.1 Background to the Study

It is important to understand budget deficit and its impact on the economic growth in Nigeria. The argument over the involvement of government in running the economic affairs of a country was put to rest by a renowned British economist, John Maynard Keynes.

Before Keynes, emphasis had been placed on the concept of æthe invisible handÆ where the economy is self adjusting. The role of the government as embodied in its fiscal operations in determining aggregate demand, income, prices and more recently, the balance of payments, is the outcome of Keynesian economists which came into being after Great Depression of the 1930'S. A major recognition by Keynes is that an economy could converge to a stable equilibrium which may be undesirable, since it might involve some involuntary unemployment and, in the Keynesian model, only government has the will and means through fiscal policy to move the economy towards a regulation of its revenue and expenditures.

There has been urgent need for rapid economic development in most developing countries. The need for the government to be involved in the process is more pronounced because the question of development cannot be answered without a conscious planning.

Although in some of the countries, particularly in Nigeria, the government often tends to pre-occupy itself with the issue of development and the breaking of vicious cycle of poverty, (that is, low income per capita leading to low saving, leading to low

investment, and eventually low productivity). However, it is known that a very sound financial and capital market is needed as prerequisite for development. But due to structural problems associated with financial markets (credit institutions) in Nigeria, such as, inhibitive policy environment; capital inadequacy; liquidity problem and management; necessary funds needed for development have not been forth coming coupled with low revenue from taxation and non-tax sources resulting from a generally low income, under-developed tax and accounting system, inadequate external aid, and many others, hence, the need for in-depth study of the impact of deficit budgeting.

Deficit budgeting as used in this study is viewed as a conscious or deliberate plan by government for an excess expenditure over revenue in its budgetary allocation over a long period of time. For instance, between : 1985-1990, 3.87% of deficit to the gross Domestic Product (GDP), while between 1991-1995, 1996-2000, 2001-2005, 2006-2007 are 4.96%, 0.16%, 2.30% and 2.65 respectively (NBS, 2008).

Several arguments have ensued over the involvement of government in running the Nigerian economy. The liberal economists believed that the only way to economic growth and development in Nigeria is through the sale of government enterprises and allowing the market forces to determine or control the productive resources of the economy; while the non-liberals maintain the opposite view.

Prior to 1986, Nigeria had been operating on a project based planning technique which makes government to spend more than its income in order to cushion the effect of the fall in price of crude oil in the early 80Æs. The country adopted a new planning technique in 1986 which was encapsulated in the policy of Structural Adjustment Programme (SAP). But, because of improper implementation, the programme failed,

though, the country still uses the policy based planning technique in line with international practices in the developed economies.

## 1.2 Statement to the Problem

The policy of deficit budgeting had grown tremendously in Nigeria between 1985 and 2008.The essence was to help accelerate the growth of capital in Nigeria using the policy of deficit budgeting as formulated by Keynes. The statement of the problem is: To what extent is the policy of deficit spending applicable to Nigeria as a tool for economic growth and development bearing in mind that Nigeria is a newly emerging industrialized country and that the policy of deficit spending has prominence in the Keynesian macroeconomic model, which was developed for conditions appropriate for developed countries. Categorically in Nigeria, the reverse seems to be the case. This is given to the fact that the major policy focus or thrust of SAP was to divest government in the operations of the economy and promote private sector driven economy through privatization programme. Yeit the government is still prominent in deficit spending. We seem to focus on classical ideas but tenaciously hold on to Keynesian conduct. Want to evaluate the impact budget deficit has on the economic growth of the economy.

## 1.3 Research Question

In the process of evaluating the policy implication of deficit spending of the government on economic growth between 1985 and 2008, some questions arises which needs to be answered. These questions are:

i. Has the policy of deficit budgeting increased real GDP?

ii. What are its implications of Public Debt?

iii. Is there any correlation between economic growth and deficit budgeting?

iv. What is the impact of budget deficit on Economic growth?

## 1.4 Objectives of the Study

The objective of this study among other things shall mainly

focus on the following:

i. To determine the effect of government spending on real GDP.

ii. To determine the impact of government deficit budgeting on the inflation rate.

iii. To determine the relationship between budget deficit and economic growth.

iv. To determine the impact of budget deficit on economic growth?

## 1.5 Research Hypothesis

The hypothesis is presented in the form of Null ($H_0$) and Alternative ($H_1$) hypotheses.

1. **$H_0$:**There is no relationship between Government Expenditure and Economic Growth of the Nigerian Economy.

   **$H_1$:** There is a relationship between Government Expenditure and Economic Growth of the Nigerian Economy.

2. **$H_0$:**Budget Deficit has no influence on the Nigerian Economic Growth.

   **$H_1$:** Budget Deficit has an influence on the Nigerian Economic Growth.

## 1.6 Significance of the Study

The policy of deficit budgeting is the Keynesian macroeconomic model designed for conditions appropriate for developed countries. It is pertinent therefore, to evaluate, if the impact of deficit budgeting in relation to economic growth and development in

Nigeria is positive or otherwise. The reason for the research is to ascertain the extent at which deficit budgeting contributed to economic growth and development in Nigeria between 1985 and 2008

This work is significant on the grounds of the questions raised by the researcher, which few research works related to this one have not answered. Also, the work includes an individual examination of the relationship between Deficit Spending and Inflation/Unemployment, Gross Fixed Capital Formation and economic growth in Nigeria. Attempt shall be made to explain changes in domestic price level with magnitude of deficit spending via the vehicle of budgetary allocation in Nigeria. Other researchers have neglected the cost (that is, adverse effect) of the policy of deficit budgeting; but, the researcher has included them in his work.

## 1.7 Scope of the Study

The scope of this study spans .through ten years, from 1998-2008.In this study, only deficit of the federal government will be given close attention while the financial profile (revenue and expenditure) of the other two tiers of government, that is, local and state governments will not be considered. Also, we shall consider in our study, the range of years the federal government experience budget deficit.

# CHAPTER TWO

# LITERATURE REVIEW

## 2.1 Introduction

The relationship between government expenditure and economic growth has continued to generate series of debate among scholars. Government performs two functions- protection (and security) and provisions of certain public goods (Abdullah, 2000 and Al-Yousif, 2000). Protection function consists of the creation of rule of law and enforcement of property rights. This helps to minimize risks of criminality, protect life and property, and the nation from external aggression. Under the provisions of public goods are defense, roads, education, health, and power, to mention few. Some scholars argue that increase in government expenditure on socio-economic and physical infrastructures encourages economic growth. For example, government expenditure on health and education raises the productivity of labour and increase the growth of national output. Similarly, expenditure on infrastructure such as roads, communications, power, etc, reduces production costs, increases private sector investment and profitability of firms, thus fostering economic growth. Supporting this view, scholars such as Al-Yousif (2000), Abdullah (2000), Ranjan etal (2008) and Cooray (2009) concluded that expansion of government expenditure contributes positively to economic growth.

However, some scholars did not support the claim that increasing government expenditure promotes economic growth, instead they assert that higher government expenditure may slowdown overall performance of the economy. For instance, in an attempt to finance rising expenditure, government may increase taxes and/or

borrowing. Higher income tax discourages individual from working for long hours or even searching for jobs. This in turn reduces income and aggregate demand. In the same vein, higher profit tax tends to increase production costs and reduce investment expenditure as well as profitability of firms. Moreover, if government increases borrowing (especially from the banks) in order to finance its expenditure, it will compete (crowds-out) away the private sector, thus reducing private investment. Furthermore, in a bid to score cheap popularity and ensure that they continue to remain in power, politicians and governments officials sometimes increase expenditure and investment in unproductive projects or in goods that the private sector can produce more efficiently. Thus, government activity sometimes produces misallocation of resources and impedes the growth of national output. In fact, studies by Laudau (1986), Barro (1991), Engen (1992) and Folster (2001) suggested that large government expenditure has negative impact on economic growth.

## 2.2 Concept of Budget Deficit

Facing with the need to finance raising public expenses, governments usually resort to increasing current budgetary resources, among which the most important are fiscal revenues. Nevertheless, the effective impossibility or the inappositeness of growing tax revenues (as that supposes measures hard to put into practice, frequently having negative economic and social consequences, unfavourable to the leading Government) often causes a lack of ordinary resources, so that the budget deficit appears, enforcing the use of some other resources, currently called extraordinary as their use is not considered to fall within the normal evolution limits.

In time, two categories of such resources have been frequently employed, the issue of money and the issue of debt, outlining the two major ways of financing budget deficit, namely the monetary financing and the nonmonetary financing.

**Monetary financing of the budget deficit and its effects**

The monetary financing involves the resort of governments to the central bank's resources, in other words the issuing of new money in order to finance the surplus of public expenditures generating budget deficits. Though, we can consider that the monetary financing is employed in order to finance the budget deficit only when governments "force the issuing of money by putting into circulation more money that are normally necessary" (Filip, 2002). Putting it differently, the government offers on the market a stock of money that excels the amount objectively justified to be into circulation, taking into account the proportions and the characteristics of the economy. Supposing an increase of the money supply, while the quantity of goods and services that are subject to transactions is considered invariable, the issuing of money without real covering in order to finance budget deficit has in the fore-ground as result an increasing level of prices. We can invoke as support for this statement the equation of exchanges formulated by the american economist Irving Fisher (1911) in "The purchasing power of money", which points out the relationship existing between the money stock, the velocity of money and the volume of transactions, as indicated by the fallowing formula:

M*V = P*T, where:

M – the money stock into circulation;

V – the velocity of money;

P – the average price level;

T – the level of output.

On the basis of this equation we can see that, at a given quantity of output, an increasing stock of money into circulation (inclusively as a consequence of new money issuing for financing the budget deficit) is directly reflected in a raising level of prices. It is imperative to specify that, in Fischer's view, the velocity of money is assumed to be constant, as it only depends on the payment habits of the economic entities, which stay unchanged for a certain period of time.

The increase of the level of prices, at a given level of the individuals and organizations' nominal income, will cause the reduction of their real income, in other words a decrease in the purchasing power of these persons. It is enlightened, this way, an important effect of money issuing for financing the budget deficit: it redistributes a part of the purchasing power of the income holders, both individuals and legal entities, at the government's disposal, which makes use of the additional stock of money in order to buy goods and services or to make payments for public consumption. According to Fischer and Dornbusch, "this way, the government can spend more resources and the population less, exactly as if the government would increase taxes in order to finance further spending" (Fischer, 1997).

Regardless of the real conditions of its employment, the monetary financing of budget deficit has as first effect an increase of prices. However, under certain particular conditions of use, this can determine an inflationary, long term increase, depending on the destination of the resources collected by governments in this way.

If the resources resulting from the additional money issuing in order to cover the budget deficit are employed to finance investment projects, which induce a raising output, the original increase in the money stock available to circulation will have as equivalent an raising quantity of goods and services object to tranzactions, in other words of the supply on the real market, and the increase in the level of prices will not become permanent. On the other hand, if the additional resources are employed to finance final consumption expenses, witch do not determine a subsequent grow of GDP, the increse in the price level will be of long standing and the monetary financing of budget deficit will be inflationary.

As governments generally use new money issuing in order to finance unproductiveexpenses, it is generalized the appreciation that financing budget deficits by money issuing certainly conducts to inflation.

The emergence of inflation, as an effect of financing budget deficit by money issuing, has first of all an impact on the volume of the resources obtained by the government in this way. The real value of usable resources is more reduced following the incidence of inflation, being equal to the purchase power reallocated from the other users of real revenues, lower than the nominal ones as a consequence of the currency depreciation caused by the government.

Moreover, inflation as an effect of monetary financing of the budget deficit has a negative impact, as long as its level is high, all the more so, while the real monetary basis decreases, the inflation rate has to be increased in order to finance a given deficit. Together with the effects regarding the reduction of government revenues, in conjectural situations and in the short-term, inflation can also have positive effects in

this respect. In the case of high indebted countries, inflation can diminish the burden of public debt as a real value, even if this effect only occurs concerning the debt contracted in national currency and is reduced, because often, when inflation appears, the short-term debt weights more. Nevertheless, for the same indebted countries, nominal interest rates increase with the rise of inflation rate, leading to the increase of debt expenditures reflected in the budget, so to the increase of the budget deficit.

The consequences of the rise in prices and the emergence of inflation, including as an effect of excessive money issuing made by the government in order to keep up with its expenditures, can also be emphasized at other levels of economic and social life.

The degradation of value relations among the participants to social and economic life following the inflation, leads to the fact that prices and salaries do not play a role of guiding indices in market economy anymore. When the national supply of goods and services is insufficient and uncompetitive, the depreciated national currency, which should encourage exports, does not succeed in stimulating them; on the contrary, it encourages imports inorder to make up for the deficits created by the reduced amount of national output and it leads to the degradation of the balance of payments.

As far as people are concerned, inflation operates an inequitable differentiation of income holders, affecting those having small and fixed incomes (employees, pensioners, unemployed) and encouraging the ones who have a big and variable income, whose purchase power may remain constant or may even increase, under some circumstances.

Affecting the corporations management and the investment capacity, inflation can also represent a factor of rise in the unemployment, having severe consequences at the

social level. Moreover, inflation spreads uncertainty and anxiety among people, the social climate is deteriorated, the governments and the public authority generally lose their credibility.

High budget deficits that inevitably caused extreme inflation, of up to 50, 100 or even 500 % per year, have been recorded in the mid-eighties in Latin America and Israel. In the 1980's, in Mexico, the monetary basis increased, for instance, with 80-90 % per year, producing an increase of 100-130 % in the inflation rate in that period. According to Nicolae Hoanță, "Mexico's example has to become a warning for any temptation of using money issuing in order to finance the deficit" (Hoanță, 2000).

The awareness of the deep disturbing impact of monetizing budget deficit on the economy and on the society led to its rejection by state authorities, especially in the past decades. Even if money issuing has represented, for a long period of time, a source of financing budget deficit preferred by the governments, as it was easy and quick to employ, in contemporary society it is generally prohibited by law in most of world countries.

This aspect can also be noticed within the European Union, where direct monetary financing of public deficit by central banks was prohibited by the Treaty of Maastrict. Also, in Romania, within the framework of implementing the acquis communautaire in the banking sector, the new law regarding the status of the National Bank of Romania (Law no. 312/2004) stipulates the prohibition of any direct financing possibility of public institutions by the central bank.

**Debt financing of the budget deficit and its effects**

The second solution for financing the budget deficit implies public loans made by governments in order to make up for supplementary expenditures non-covered by current revenues. This way, the government facing with the need of raising supplemmentary financial resources transacts with different individuals and corporations disposing of unused financial liquidities and who give them away to states as a loan, this way becoming state's creditors.

There are two essential characteristics definig this form of raising extraordinary revenues. First of all, the resources collected this way are on a temporary basis, the state giving back the respective amount of money to the right owners, after a certain period of time. Those who lend money to governments give up only the right to temporary use the disposable financial resources and the purchasing power they represent, but they keep the property right and the possibility of recovering the resources after some time, in order to satisfy their own needs. Secondly, the public loan, as all other loans, is coslty: it supposes that states pay interest to their creditors as a prices for using the temporary available resources.

As a result of its characteristics, public loan can involve several undesired effects. It mainly leads to the accumulation of public debt and to the increase in interest payments, which determines an increase in the budgetary expenses that states have to cover.

On the other hand, beeing based on attracting free financial resources from the participants in economic relations, the public loan basically expresses "temporary redistribution processes of disposable cash belonging to different physical and legal

entities, in order to cover public expenditures". (Filip, 1999). So, the public loan does not lead to the unjustified increase of the amount of financial signs which are in circulation and it does not generally have an inflationary character. As a consequence, it usually is accepted as a source to finance budget deficits in contemporary society.

Nevertheless, the involvement of money issuing, with all its negative effects, may become possible if the indebtness of the government is accepted as a viable solution, in the context of covering cash deficits of the treasury by loans from the central bank. Thus, if the government meets with financial difficulties, in order to incur expenditures, it may resort to the central bank, requiring it to lend it some money in order to temporarily cover the deficit of public treasury, in exchange of issuing some treasury bills. If the government does not succeed in cashing in current revenues in order to pay back the particular amounts of money anymore, the money stock may unjustifiably increase, that implying the inflationary money issuing.

Under such circumstances, the number of countries forbidding these types of loans has increased. Within the European Union, the Treaty of Maastricht prohibits any type of credit facility granted by national central banks to public entities. As far as Romania is concerned, it was accepted for a long period of time for the National Bank of Romania to temporary to cover the cash deficits of the public treasury.

The central bank was authorized to lend money for no more that 180 days in order to temporary finance the difference between receipts and expenses reflected in the current general account of the Treasury, with market-level interest and without exceding 7% of the state's current budgetary incomes. The unrepayed loans balance had to be, at any moment, less than the double of the bank's capital and reserve fund.

According to the Law no. 312/2004 regarding the status of the National Bank of Romania, the possibility of granting loans by the central bank in order to cover the temporary imbalance between receipts and payments of the current account of state treasury was eliminated. If the government's indebtness is accepted as a viable solution, the potential engagement of monetary financing, with negative inflationary effects, appears mostly when financing the budget deficit is made via loans from banks, inclusively by acquiring government securities by them.

The participation of banks as government's creditors, without excluding the possibility of redistributing an amount of money already in circulation, often implies the increase of the stock of money for financing the economy. In this respect, the central bank might be involved in the crediting process of commercial banks, by rediscounting operations of commercial papers and, on a similar basis, by granting refinancing credits that can create an increase in the banks' liquidities and the emergence of the so-called "credit-based inflation".

Consequently, money issuing as a financing source of the budget deficit appears only when banks, acquiring government securities and facing a shortage in liquidities, resort to the central bank in order to increase the latter; otherwise, financing the budget deficit remains, in essence, non-monetary.

The size of the newly-created money stock, following government loans in order to cover budget deficit, is rather difficult to assess, depending on one hand on the volume of government securities owned by banks and on the other hand on the ratio of reallocated resources, respectively the newly-created resources, within the total amount of crediting resources.

Banks represent an important buyer of the state's bonds in Romania, this way binding debt financing of budget deficits to inflation. Considering this and since Romania has become part of the European Union and must fulfill nominal convergence criteria in order to be part of the European Monetary Union, the concern of decision-makers to reduce budget deficit should be a crucial one, not only to ensure that the budget deficit is below 3 % of the GDP, which was respected in the last years, but especially to maintain the inflation below 1.5 % of the average of European states performing best in the area.

## 2.3 Budget Deficit in Nigeria

The beginning of the existing market for government borrowing in Nigeria is the financial reforms introduced by the colonial government in 1958. These reforms saw to the creation of the Central Bank of Nigeria (CBN) and the creation of Marketable Public Securities to finance fiscal deficit. According to paragraph 35 of the Central Bank of Nigeria (CBN) Ordinance 1958, the bank shall be entrusted with the issue and management of Federal Government Loans publicly issued in Nigeria upon such terms and conditions as maybe agreed w ithin the Federal Government and the Bank.

Since the early 1960s, the ratio of domestic government to Gross Domestic Product (GDP) increased. A decade later by 1974 this ratio went up slightly to 6.9% of GDP. But by1984, the domestic debt to GDP ratio was over 40%. Although it declained slightly in the 1990s, it has since 2000 moved upward, Asogwa (2005). He further opined that, Nigeria has not been alone in experiencing escalating levels of

government domestic indebtedness, but in comparison to other countries in sub-Saharan Africa, Nigeria's domestic debt to GDP ratio is clearly on the high side.

One can analyze the evolution of the domestic debt from its size or by considering it's different components. The stock of government debt is measured relative to national output. This is shown by the size of the domestic debt structure both in nominal terms as a percentage of total debt has grown tremendously from N0.23 billion at inception and it stood at N1.86 billion as at 1980. It was in 1986, at the inception of the Structural Adjustment Programame (SAP) that the level of external debt for the first time becomes larger than the level of dom estic debt.

Ever since then, the stock of external debt has consistently been larger than domestic debt. Alison *et al*. (2003) revealed three theoretical reasons often advanced for government domestic debts. The first, is for budget deficit financing, secondly, is for implementing monetary policy (buying and selling of treasury bills in the open market operation) and the third is to develop the financial instruments so as to deepen the financial markets,.

In Nigeria, several factors have been advance to explain the changing domestic debt profile between the1960s to date. The major factors include – high budget deficits, low output growth, large expenditure growth, high inflation rate and narrow revenue base witnessed since the 1980s. Output growth declined as it recorded annual average values of 5.9% in 1980-1984, 4% in 1990–1994 and 2.8% in 1998–1999 period respectively.

However, growth was recorded in 2003. It is usually expected that as countries expand their output, they also tends to rely more heavily on domestic public debt issuance to

finance growth. There is thus a strong crosscountry relationship between economic growth and the total size of the debt market.

Public expenditure as a percentage of GDP increased from 13% in the 1980 – 1989 period to 29.7% in the 1990–1994 periods. This increased public expenditures to GDP ratio resulted from fiscal policy expansion embarked upon during the oil boom era of the 1970s. However, as the oil boom declined in the 1980s, priorities of government expenditure did not change. Consequently, the fiscal operations of the federal government resulted in large deficits from the average of 0.8% of GDP in the 1970 – 1979 period, the level of deficit increased persistently averaging 5.1%in 1980 – 1989 and 10.0 in 1990 – 1994. A very remarkable feature of the government fiscal expansion was the financing of the excess expenditures from domestic sources averaging 79.2% between 1980 – 2002, since foreign loan was difficult to obtain.

Gross – country relationship between fiscal deficits (as percentage of GDP) and the size of government debt markets confirms that countries with larger fiscal deficits have issued more government securities in domestic markets.

Generally, declines in government revenue were met by borrowing from the Central Bank through the instrument of ways and means advances. These advances were never defrayed by the Federal Government but refinanced by the floatation of treasury bills and treasury certificates are rolled over by issuing new ones to pay holders of muturating debt instrument contributing to the continue growth of the debt stock. The research therefore, set out to investigate the effect of rising domestic debt on the Nigerian Economy.

In Nigeria, government expenditure has continued to rise due to the huge receipts from production and sales of crude oil, and the increased demand for public (utilities) goods like roads, communication, power, education and health. Besides, there is increasing need to provide both internal and external security for the people and the nation. Available statistics show that total government expenditure (capital and recurrent) and its components have continued to rise in the last three decades. For instance, government total recurrent expenditure increased from N3,819.20 million in 1977 to N4,805.20 million in 1980 and further to N36,219.60 million in 1990. Recurrent expenditure was N461,600.00 million and N1,589,270.00 million in 2000 and 2007, respectively (see 2.1). In the same manner, composition of government recurrent expenditure shows that expenditure on defense, internal security, education, health, agriculture, construction, and transport and communication increased during the period under review (see 2.1). Moreover, government capital expenditure rose from N5,004.60 million in 1977 to N10,163.40 million in 1980 and further to N24,048.60 million in 1990. The value of capital expenditure stood at N239,450.90 million and N759,323.00 million in 2000 and 2007, respectively (see 2.2). Furthermore, the various components of capital expenditure (that is, defense, agriculture, transport and communication, education and health) also show a rising trend between 1977 and 2007 (see 2.2).

**Table 2.1: Government Recurrent Expenditure and its Components (₦ million)**

| Years | Defence | Education | Health | Agriculture | Communication and transport | Total Recurrent Expenditure |
|---|---|---|---|---|---|---|
| 1977 | 817.70 | 238.60 | 109.50 | 19.50 | 41.30 | 3,819.20 |
| 1978 | 596.10 | 268.20 | 72.90 | 19.70 | 29.10 | 2,800.00 |
| 1979 | 724.20 | 368.90 | 87.50 | 34.30 | 43.70 | 3,187.20 |
| 1980 | 652.50 | 597.20 | 155.30 | 32.50 | 58.50 | 4,805.20 |
| 1981 | 725.10 | 543.70 | 119.80 | 33.90 | 59.10 | 4,846.70 |
| 1982 | 660.80 | 646.70 | 155.80 | 34.10 | 53.80 | 5,506.00 |
| 1983 | 535.40 | 620.80 | 143.60 | 29.30 | 49.70 | 4,750.80 |
| 1984 | 569.20 | 716.30 | 139.10 | 32.80 | 42.30 | 5,827.50 |
| 1985 | 656.60 | 669.50 | 167.70 | 32.70 | 125.80 | 7,576.40 |
| 1986 | 742.40 | 652.80 | 279.20 | 32.90 | 125.80 | 7,696.90 |
| 1987 | 717.70 | 514.40 | 166.90 | 29.20 | 114.20 | 15,646.20 |
| 1988 | 830.00 | 802.30 | 260.00 | 54.30 | 142.80 | 19,409.40 |
| 1989 | 957.30 | 1,719.90 | 326.60 | 81.10 | 170.40 | 25,994.20 |
| 1990 | 1,410.50 | 1,962.60 | 401.10 | 208.10 | 232.40 | 36,219.60 |
| 1991 | 1,834.20 | 1,265.10 | 619.40 | 121.10 | 245.40 | 38,243.50 |
| 1992 | 2,023.40 | 1,676.30 | 837.40 | 161.50 | 356.30 | 53,034.10 |
| 1993 | 3,085.40 | 6,436.10 | 2,331.60 | 1,015.50 | 350.10 | 136,727.10 |
| 1994 | 4,205.10 | 7,878.10 | 2,066.80 | 919.00 | 381.40 | 89,974.90 |
| 1995 | 5,344.40 | 9,421.30 | 3,335.70 | 2,236.00 | 890.00 | 127,629.80 |
| 1996 | 11,425.70 | 12,136.00 | 3,192.00 | 1,681.20 | 2,183.60 | 124,491.30 |
| 1997 | 11,607.20 | 12,136.00 | 3,179.20 | 1,682.20 | 1,290.20 | 158,563.50 |
| 1998 | 15,130.80 | 13,928.30 | 4,860.50 | 2,963.80 | 1,969.40 | 178,097.80 |
| 1999 | 28,091.40 | 23,047.20 | 8,793.20 | 31,347.20 | 5,877.60 | 449,662.40 |
| 2000 | 33,119.40 | 44,225.50 | 11,612.60 | 4,834.70 | 2,315.70 | 461,600.00 |
| 2001 | 47,071.60 | 39,884.60 | 24,523.50 | 7,064.90 | 33,935.10 | 579,300.00 |
| 2002 | 86,053.80 | 100,240.20 | 50,563.20 | 12,439.40 | 36,579.40 | 696,800.00 |
| 2003 | 51,043.60 | 64,755.90 | 33,254.50 | 7,534.30 | 22,669.80 | 984,300.00 |
| 2004 | 65,400.20 | 72,217.90 | 33,377.40 | 11,725.60 | 4,592.30 | 1,032,700.00 |
| 2005 | 90,333.80 | 92,594.70 | 50,032.80 | 10,858.80 | 7,780.80 | 1,223,700.00 |
| 2006 | 83,674.00 | 129,421.90 | 67,550.20 | 18,739.80 | 9,468.90 | 1,290,201.00 |
| 2007 | 102,597.27 | 137,478.26 | 71,228.99 | 15,781.42 | 10,080.69 | 1,589,270.00 |

**Source:** CBN Statistical Bulletin (2007, 2008)

**Table 2.2: Government Capital Expenditure and its Components (₦ million)**

| Years | Defence | Agriculture | Transport & Communication | Education | Health | GDP at current Market Prices | Consumer price index | Total Recurrent Expenditure |
|---|---|---|---|---|---|---|---|---|
| 1977 | 97.70 | 105.50 | 2,300.40 | 500.00 | 114.10 | 31,520.30 | 0.66 | 5,004.60 |
| 1978 | 39.80 | 128.40 | 1,331.10 | 301.40 | 49.60 | 34,540.10 | 0.7 | 5,200.00 |
| 1979 | 44.40 | 321.90 | 1,865.70 | 533.20 | 96.20 | 41,974.70 | 0.75 | 4,219.50 |
| 1980 | 127.50 | 435.60 | 2,349.30 | 952.60 | 147.20 | 49,632.30 | 0.88 | 10,163.40 |
| 1981 | 96.20 | 775.10 | 1,625.70 | 440.90 | 128.40 | 47,619.70 | 1.03 | 6,567.00 |
| 1982 | 82.20 | 1,035.10 | 1,283.90 | 488.00 | 130.20 | 49,069.30 | 1.1 | 6,417.20. |
| 1983 | 200.80 | 1,185.20 | 1,094.40 | 346.60 | 136.00 | 53,107.40 | 1.53 | 4,885.70 |
| 1984 | 38.40 | 252.50 | 261.90 | 144.90 | 51.10 | 59,622.50 | 1.87 | 4,100.10 |
| 1985 | 30.60 | 985.40 | 241.00 | 180.70 | 56.20 | 67,908.60 | 1.89 | 5,464.70 |
| 1986 | 209.00 | 892.50 | 516.10 | 442.00 | 81.20 | 69,147.00 | 2.15 | 8,560.80 |
| 1987 | 18.50 | 355.10 | 375.10 | 139.10 | 69.50 | 105,222.80 | 2.36 | 6,372.50 |
| 1988 | 271.30 | 595.70 | 704.00 | 281.80 | 183.20 | 139,085.30 | 3.80 | 8,340.10 |
| 1989 | 124.10 | 981.50 | 683.80 | 221.90 | 126.00 | 216,797.50 | 5.50 | 15,034.10 |
| 1990 | 196.40 | 1,758.50 | 877.00 | 331.70 | 257.00 | 267,550.00 | 5.70 | 24,048.60 |
| 1991 | 411.10 | 551.20 | 353.40 | 289.10 | 137.60 | 312,139.70 | 7.00 | 28,340.90 |
| 1992 | 683.20 | 763.00 | 625.00 | 384.10 | 188.00 | 532,613.80 | 10.42 | 39,763.30 |
| 1993 | 1,085.60 | 1,820.00 | 1,436.00 | 1,563.00 | 352.90 | 683,869.80 | 16.80 | 54,501.80 |
| 1994 | 1,286.80 | 2,800.10 | 1,294.00 | 2,405.70 | 961.00 | 899,863.20 | 29.72 | 70,918.30 |
| 1995 | 2,031.20 | 4,691.70 | 3,800.30 | 3,307.40 | 1,725.20 | 1,933,211.60 | 45.03 | 121,138.30 |
| 1996 | 2,670.10 | 3,892.80 | 8,820.00 | 3,215.80 | 1,659.50 | 2,702,719.10 | 51.47 | 212,926.30 |
| 1997 | 3,820.80 | 6,247.40 | 7,147.70 | 3,808.00 | 2,623.80 | 2,801,972.60 | 56.73 | 269,651.70 |
| 1998 | 6,147.70 | 8,876.60 | 6,228.00 | 12,793.00 | 7,123.80 | 2,708,430.90 | 63.49 | 309,015.60 |
| 1999 | 4,856.30 | 6,912.60 | 3,313.70 | 8,516.60 | 7,386.80 | 3,194,015.00 | 63.63 | 598,067.20 |
| 2000 | 6,954.90 | 5,761.70 | 3,021.00 | 23,342.60 | 6,569.20 | 4,582,127.30 | 72.87 | 239,450.90 |
| 2001 | 16,400.00 | 57,879.00 | 19,241.00 | 19,860.00 | 20,128.00 | 4,725,086.00 | 84.90 | 438,696.50 |
| 2002 | 22,093.60 | 32,364.40 | 17,083.00 | 9,215.00 | 12,608.00 | 6,912,381.30 | 95.20 | 321,378.10 |
| 2003 | 10,679.70 | 8,510.90 | 6,639.60 | 14,680.20 | 6,431.00 | 8,487,031.60 | 117.90 | 241,688.30 |
| 2004 | 10,657.10 | 48,047.80 | 9,751.00 | 21,550.00 | 26,410.00 | 11,411,066.90 | 129.70 | 351,300.00 |
| 2005 | 21,535.20 | 79,939.40 | 19,982.50 | 27,440.80 | 21,652.60 | 14,572,239.10 | 144.70 | 519,500.00 |
| 2006 | 14,686.30 | 15,176.80 | 6,531.00 | 35,791.80 | 38,039.80 | 18,564,594.70 | 157.10 | 552,385.80 |
| 2007 | 14,717.24 | 22,518.58 | 35,529.35 | 48,293.51 | 51,171.01 | 20,657,317.70 | 167.40 | 759,323.00 |

**Source:** CBN Statistical Bulletin (2007, 2008)

## 2.4 Concept of Economic Growth

According to the Keynesian macroeconomic thought, public spending can contribute positively to economic growth. Hence, an increase in the government consumption is likely to lead to an increase in employment, profitability and investment through multiplier effects on aggregate demand. As a result, government spending augments the aggregate demand, which provokes an increased output depending on expenditure multipliers. The opponents of this approach stipulate that government consumption crowds out private investment, hampers economic growth in the short run and diminishes capital accumulation in the long run (Diamond, 1989).

Moreover, Barro and Sala-i-Martin (1992) classify expenditures as productive and unproductive and assume that productive expenditures have a direct impact on the rate of economic growth and the unproductive expenditures have an indirect or no effect.

However, government spending on basic infrastructure plays a crucial role in economic growth. Having, for instance, an efficient road network could reduce the time and the cost to move goods and services across the country. It also felicitates the connection among the different parts of the country and enhances their interaction. In addition, the rehabilitation of electricity and the establishment of efficient project for energy will reduce costs and have positive impact on economic growth (see Barro, 1990, 1994: Barro and Sali-i-Martin, 1995, 1999).

Moreover, the quality of human resources has a significant impact on economic growth. This stems from the fact that the quality and quantity of labor determine the level of production and since it is a factor of production. Hence, improving the quality

of the labor force will be reflected by a positively significant impact on investment, innovation among others (Roux, 1994 and Okojie, 1995).

The definition of nation's wealth has extended to contain not only physical capital but also human capital as an independent factor of production essential to achieve high and sustainable economic growth rates. Hence, developing countries have attempted to stimulate the accumulation of human capital through public education expenditure as well as government spending on health and other social services.

Education is one of the important factors that determine the quality of human capital. Moreover, Hartshorne (1985) suggests that formal education plays an important positive role in the economic growth. Consequently, the human capital with physical capital, are key elements of the nation's wealth. The former is considered to be an independent factor of production that is indispensable to achieve high and sustainable economic growth rates.

Accordingly, developing countries have attempted to enhance the human capital through public education expenditure as well as government spending on health and other social services.

Many researchers such as Yesufy (2000) and Adamu (2003) also assume that education, training, health care, and all investments in social services enhance and improve the human capacity and consequently the economic growth. Moreover, Ni and Wang (1994), Beauxhemin (2001), and Blankenau and Simpson (2004) have provided models that take into account the public spending in the process of human formation and its influence on economic growth. They provided an empirical evidence

of the positive correlation between educational spending of the government and economic growth.

Most developing countries suffer from poor expenditure on health care. The majority of public expenditure on health care is on hospitals and expensive medical care that benefits a small minority of the population living in the cities. A high proportion of the poor is far from this service especially those living in rural areas. They usually rely on home remedies and traditional medicine (Griffin and McKinley, 1992).

According to Griffin and McKinley (1992), human capital development is essential for growth and contributes to the improvement of well being of people in the short-run. They believe that the government should implement strategies that encompass a change in the composition of its spending.

The budget devoted to activities that do not contribute to development should be reduced to a minimum. They referred to spending on the military and internal security among others. Some studies found that the increased defense spending in developing countries has a negative implication on socioeconomic development programs such as education and health (see Fosu, 2001, 1999, 1996; Adebiyi, 2003; and Tomori and Adebiyi, 2002).

The empirical studies concerning the impact of government spending on defense have led to inconclusive results. Some studies argued that military spending has a negative impact on economic growth such as Arora and Bayoumi (1994). However, others found a positive relationship between them such as Whynes (1979) and Diamomd (1990).

## 2.5 Economic Growth in Nigeria

The need to finance rising government expenditures has been identified to be responsible for the rapid increase in the stock of Nigeria's domestic debt. Gbosi (1998), opined that borrowing by government from the domestic economy became the main source of financing government expenditure due to the collapse in prices of oil in the international market. He asserts that despite the various efforts made by the government to rationalize public expenditure, much success has not been achieved in reducing its spending and this has continuously raised the size of the domestic debt.

Christensen (2004) employed a cross country survey of the role of domestic debt market in sub-saharan African based on a new data set of 27 sub-saharan African countries during the 20 year period (1980 – 2000), he finds out that domestic debt markets in these countries are generally small, highly short term and often have a narrow investors base. He also discovered that domestic interest rate payment present a significant burdens to the budget, despite much smaller domestic debt than foreign indebtedness. He did not stop at that, he further revealed that, the use of domestic debt is also found to have significant crow d out effect on private investment.

Asogwa (2005), employing a more comprehensive technique in investigating the effect of domestic debt on economic growth concluded that domestic government debt in Nigeria has continued to suffer form of confidence crisis as market participants have consistently shown greater unwillingness to hold longer maturities. The government has only been able to issue more of shortterm debt instrument. In the words of Gurley and Shaw (1956), mounting volume of public debt is a necessary feature of a strong

and healthy financial structure of an economy. Therefore some secular increase in public debt should be planned by every government of a market – oriented economy.

However, it appears that no government plans a long term increase in debt. The volume of public debt has tended to increase in response to compulsions of the moment. We must note here the false view that a country that borrows is automatically immersed in the debt burden. This false conclusion was clarified by Queientin (1984) that indebtedness amounts to a problem, if a country couldn't afford to repay its debt. To him, the key is the cost of debt servicing which includes the repayment of principal and interest due on the loan. He justified borrowing as arising from increased government expenditure on development programmes without generally an additional income to finance it.

Ajayi (1989) traces the origin of Nigeria's debt problems to the collapse of the international oil price in 1981 and the persistent suffering of the international oil market and partly due to domestic lapses. As a result of the debt problem, credit facilities gradually dried up, which led to a number of project getting stalled. He advocated the revival of the economy growth as the best and most durable solution to the debt burden. The needed growth, however, is disturbed by two factors, which include, limitation imposed by inappropriate domestic policies and the external factors, which are beyond the

control of the economy.

Sanusi (1988), was of the view that faulty domestic policies which ranges from project financing mismatch, in appropriate monetary and fiscal policies was responsible for domestic borrowing problem. He believes that some of the policies were of little

significance because of the perceived temporary effect of the external shocks. The expansionary policies, he believes, led to stupendous macroeconomic fallout, which encourage import and discourage export production.

Ahmed (1984) reflected the causes of debt problem as related to both the nature of the economy and the economic policies put in place by the government. He articulated that the developing economies are characterized by heavy dependence on one or few agricultural and mineral commodities and export trade is highly concentrated on the other. The manufacturing

sector is mostly at the infant stage and relies heavily on imported inputs. To him, they are dependent on the developed countries for supply of other input and finance needed for economic development, which made them vulnerable to external shocks.

James (2006) opined that public debt has no significant effect on the growth of the Nigeria economy because the fund borrowed were not channeled into productive ventures, but diverted into private purse. He suggested further, that, for the gains of the debt forgiveness to be realized the War Against Corruption should be fought to the highest.

Oshadami (2006) in her own study concluded that the growth of domestic debt has affected negatively the growth of the economy. This situation is premise on the fact that majority of the market participant are unwilling to hold longer maturity and as a result the government has been able to issue more of short term debt instruments.

This has affected the proper conduct of monetary policy and affected other macroeconomic variables like inflation, which makes proper prediction in the economy difficult.

### 2.5.1 An Overview of Domestic Government Debt in Nigeria

Domestic government debt instruments play an important role in any economy be it capitalist, socialist and mixed economy. They provide economic agents with alternative options to banking for allocating their savings accordingly. It is a key part of the collateral used in financial markets, and as such plays an important role in monetary policy implementation. The situation of Nigeria domestic debt shows that treasury bills constitute the main component of government debt accounting for 77.4% of total domestic debt in 1960, decline to 51% by 1970 but went up to 62% 2003. The decline in the percentage share of treasury bills in the mid 1970s happened as revenue from the oil sector improved substantially, Okunrounnmu (1992). The growth in the level of treasury bill also reflected the practice of roll over of matured securities and continuous recourse to conversion of ways and means advances outstanding at the end of the year to treasury bills as a way of funding the fiscal deficits. Treasury certificates, which were first issued in 1968, constituted one of the largest securities between 1983and 1988. It even surpassed treasury bills issued to further deepen the domestic money market by increasing short – term investment option available. In 1995, the federal government of Nigeria decided to further reduce the debt service obligations on domestic debt. A treasury certificate was therefore abolished in 1996. In 1989, the monetary authorities at the inception of the action bid system for flotation of treasury bonds as another instrument in the portfolio of domestic debt. The objective was to minimize the service obligation on domestic debt arising from the liberalization policies thus in 1989, N20 million worth of treasury bills representing 58.6% of treasury bills outstanding were converted to treasury bond. Development stocks were

apparently the first government instruments to be issued. It floated largely to provide development finance either directly to meet the needs of the federal government or as loan on lent to the state government. The development stocks were first register debt stocks 1956/61. The stock outstanding increased between 1960, 1987 and 1988. This stock is traded in the secondary market of the Nigeria stock exchange.

### 2.5.2 The Trends in Nigeria's Public Domestic Debt

Total domestic debt w as N28,440.2 million in 1986 but, 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 N37,062.0 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 (Table 2.3). In 1996, domestic debt outstanding arose astronomically atoN343,674.1 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 (Table2.3). 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 andN1,370,325.2 million in 2001, 2003 and 2004 respectively (Table2.3). In absolute terms, Nigeria's domestic debt had grown sky – rocketedly 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 (Table2.3).

**Table 2.3 Trends of real GDP (Y) and domestic debt outstanding**

| Year | Real GDP | Domestic Debt Outstanding |
|---|---|---|
| 1986 | 69063.3 | 28440.2 |
| 1987 | 94905.0 | 36790.6 |
| 1988 | 80123.1 | 47031.1 |
| 1989 | 81605.8 | 47051.1 |
| 1990 | 93680.8 | 84093.1 |
| 1991 | 96836.8 | 116200.2 |
| 1992 | 113249.0 | 161900.2 |
| 1993 | 92249.4 | 261093.6 |
| 1994 | 76893.0 | 259360.9 |
| 1995 | 95662.0 | 248774.5 |
| 1996 | 105655.0 | 343674.1 |
| 1997 | 101513.1 | 359029.1 |
| 1998 | 90080.5 | 537490.9 |
| 1999 | 102460.2 | 794806.6 |
| 2000 | 135532.1 | 898253.9 |
| 2001 | 129480.0 | 10167974.0 |
| 2002 | 130670.0 | 1166000.7 |
| 2003 | 113874.5 | 1329692.7 |
| 2004 | 105588.0 | 1370325.2 |
| 2005 | 14610880.0 | 1525906.6 |

Source: CBN Statistical Bulletin Vol. 16, December 2005

## 2.6 Review of Related Literature

In the Keynesian model, increase in government expenditure (on infrastructures) leads to higher economic growth. Contrary to this view, the neo-classical growth models argue that government fiscal policy does not have any effect on the growth of national output. However, it has been argued that government fiscal policy (intervention) helps to improve failure that might arise from the inefficiencies of the market. The seminal work of Barro (1990) opened new ground for the investigation of the impact of fiscal policy (government expenditure) on economic growth. In line with this, Barro et al (1992), Easterly (1993) and Brons et al (1999), emphasized that government activity influences the direction of economic growth. Similarly, AmirKhalkhali (2002) pointed

out that in the endogenous growth models, fiscal policy is very crucial in predicting future economic growth.

Many researchers have attempted to examine the effect of government expenditure on economic growth. For instance, Daudau (1983) examined the effect of government (consumption) expenditure on economic growth for a sample of 96 countries, and discovered a negative effect of government expenditure on growth of real output. Komain (2007) examined the association between government expenditures and economic growth in Thailand, by employing the Granger causality test. The results revealed that government expenditures and economic growth are not co-integrated. Moreover, the results indicated a unidirectional relationship, as causality runs from government expenditures to growth. Lastly, the results illustrated a significant positive effect of government spending on economic growth. Komain (2007) investigated the relationships between government expenditure and economic growth for a group of 30 OECD countries during the period 1970-2005. The regression results showed the existence of a long-run relationship between government expenditure and economic growth. In addition, the authors observed a unidirectional causality from government expenditure to growth for 16 out of the countries, thus supporting the Keynesian hypothesis. However, causality runs from economic growth to government expenditure in 10 out of the countries, confirming the Wagner's law. Finally, the authors found the existence of feedback relationship between government expenditure and economic growth for a group of four countries.

In their Study, Folster and Henrekson (2001) studied the relationship between government expenditure and economic growth for a sample of wealthy countries for

1970-95 period, using various econometric approaches. The authors submitted that more meaningful (robust) results are generated, as econometric problems are addressed. In India, Ranjan and Sharma (2008) examined the effect of government development expenditure on economic growth during the period 1950-2007. The authors discovered a significant positive impact of government expenditure on economic growth. They also reported the existence of cointegration among the variables. Al-Yousif (2000) indicated that government spending has a positive relationship with economic growth in Saudi Arabia. On his part, Ram (1986) studied the linkage between government expenditure and economic growth for a group of 115 countries during the period 1950-1980. The author used both cross section, time series data in his analysis, and confirmed a positive influence of government expenditure on economic growth.

Cooray (2009) used an econometric model that takes government expenditure and quality by governance into consideration, in a cross-sectional study that includes 71 countries. The results revealed that both the size and quality of the government are associated with economic growth. Abu-Bader and Abu-Qarn (2003) employed multivariate co-integration and variance decomposition approach to examine the causal relationship between government expenditures and economic growth for Egypt, Israel, and Syria. In the bivariate framework, the authors observed a bi-directional (feedback) and long run negative relationships between government spending and economic growth. Moreover, the causality test within the trivariate framework (that include share of government civilian expenditures in GDP, military burden, and economic growth) illustrated that military burden has a negative impact on economic

growth in all the countries. Furthermore, civilian government expenditures have positive effect on economic growth for both Israel and Egypt.

Liu Chih-HL et al (2008) examined the causal relationship between GDP and public expenditure for the US data during the period 1947- 2002. The causality results revealed that total government expenditure causes growth of GDP. On the other hand, growth of GDP does not cause expansion of government expenditure. Moreover, the estimation results indicated that public expenditure raises the US economic growth. The authors concluded that, judging from the causality test Keynesian hypothesis exerts more influence than the Wagner's law in US. Loizides and Vamvoukas (2005) employed the trivariate causality test to examine the relationship between government expenditure and economic growth, using data set on Greece, United Kingdom and Ireland. The authors found that government size granger causes economic growth in all the countries they studied. The finding was true for Ireland and the United Kingdom both in the long run and short run. The results also indicated that economic growth granger causes public expenditure for Greece and United Kingdom, when inflation is included.

Gregoriou and Ghosh (2007) used the heterogeneous panel to investigate the impact of government expenditure on economic growth. The authors employed the GMM technique, and discovered that countries with large government expenditure tend to experience higher growth, but the effect varies from one country to another. In Saudi Arabia, Abdullah (2000) analyzed the relationship between government expenditure and economic growth. The author reported that the size of government is very important in the performance of economy. He advised that government should increase

its spending on infrastructure, social and economic activities. In addition, government should encourage and support the private sector to accelerate economic growth. Donald and Shuanglin (1993) investigated the differential effects of various forms of expenditures on economic growth for a sample of 58 countries. Their findings indicated that government expenditures on education and defense have positive influence on economic growth, while expenditure on welfare has insignificant negative impact on economic growth. Niloy et al (2003) used a disaggregated approach to investigate the impact of public expenditure on economic growth for 30 developing countries in 1970s and 1980s. The authors confirmed that government capital expenditure in GDP has a significant positive association with economic growth, but the share of government current expenditure in GDP was shown to be insignificant in explaining economic growth. At the sectoral level, government investment and expenditure on education are the only variables that had significant effect on economic growth, especially when budget constraint and omitted variables are included. Erkin (1988) examined the relationship between government expenditure and economic growth, by proposing a new framework for New Zealand. The empirical results showed that higher government expenditure does not hurt consumption, but instead raises private investment that in turn accelerates economic growth.

Mitchell (2005) argued that the American government expenditure has grown too much in the last couple of years and has contributed to the negative growth. The author suggested that government should cut its spending, particularly on projects/programmes that generate least benefits or impose highest costs. In Sweden, Peter (2003) examined the effects of government expenditure on economic growth

during 1960-2001 period. The author emphasized that government spends too much and it might slowdown economic growth. Devarajan et al (1996) studied the relationship between the composition of government expenditure and economic growth for a group of developing countries. The regression results illustrated that capital expenditure has a significant negative association with growth of real GDP per capita. However, the results showed that recurrent expenditure is positively related to real GDP per capita.

In Nigeria, many authors have also attempted to examine government expenditure-economic growth relationship. For example, Oyinlola (1993) examined the relationship between the Nigeria's defence sector and economic development, and reported a positive impact of defence expenditure on economic growth. Fajingbesi and Odusola (1999) empirically investigated the relationship between government expenditure and economic growth in Nigeria. The econometric results indicated that real government capital expenditure has a significant positive influence on real output. However, the results showed that real government recurrent expenditure affects growth only by little. Also, study by Ogiogio (1995) revealed a long-term relationship between government expenditure and economic growth. Moreover, the author's findings showed that recurrent expenditure exerts more influence than capital expenditure on growth. Akpan (2005) used a disaggregated approach to determine the components (that include capital, recurrent, administrative, economic service, social and community service, and transfers) of government expenditure that enhances growth, and those that do not. The author concluded that there was no significant

association between most components of government expenditure and economic growth in Nigeria.

## 2.7 Conceptual Framework

Oshadami (2006) Defined Domestic Government debt as debt instruments issued by the Federal Government and denominated in local currency. In principles, state and local government can also issue debt instrument, but limited in their ability to issue such. Debt instrument consist of Nigerian Treasury certificates, Federal government development stocks and treasury bonds. Out of these, treasury bills, treasury certificates and development stocks are marketable and negotiable while treasury bonds; ways and means advances are not marketable but held solely by the central Bank of Nigeria. Odozi (1996), in his opinion sees domestic debt as the gross liability of Government, and properly considered should include Federal, State and Local governments transfer obligations to the citizens and corporate firms within the country. Consequently, the Central Bank of Nigeria (CBN) as banker and financial adviser to the Federal Government is charged with the responsibility for managing the domestic Public debt.

Lipsey (1986) Defined economic growth as the positive trend in the nations total output overlong period of time. This implies a sustained increase in Gross Domestic Product (GDP) for a long time. Schiller (1999) opined that economic growth is an increase in output (real GDP), an expansion in product possibility curve. Schiller (1999) view was not different from that of Dolan and Lindsey (1991) who sees economic growth as most frequently expressed in terms of increase in Gross Domestic

Product (GDP), a measure of the economy's total output of goods and services. This GDP as a measure of economic growth, like any other economic quantitative must be expressed in real terms. That is, it must be adjusted for the effects of inflations as for it to provide a meaningful measure of growth overtime.

# CHAPTER THREE

# RESEARCH METHODOLOGY

## 3.1 Research Design

The research work can best be described as a survey research. A survey research is one in which a group of people or items is studies by collecting and analyzing data from only a few people or items considered to be representative of the entire group (Nworgu, 2006). More specifically this research work is a sample survey as only a sample of the population is studied.

## 3.2 Population of the Study

The population of a study refers to the entire related elements on which a study is conducted (Olorunfemi, 2004). In other words, population of studies refers to the sum of the objects on which a study is carried out and conclusions made.

The population of this study is the entire indicators and variables that contribute to economic growth of the Nigerian economy.

## 3.3 Sampling Techniques and Sample Size

A sample is a collection of representatives of an entire study population which has true characteristics of the population (Olorunfemi, 2004). It is a smaller group of elements drawn through a definite procedure from a specified population (Nworgu 2006).

The sample chosen for this study is arrived at by non-probability sampling. It entails selecting those elements having particular characteristics of interest to the researcher

and is accessible to him. This sampling is used to ensure that specific elements will be included (Nworgu 2006)

The sample size comprises of the budget deficit (government expenditure), inflation and the GDP.

The justification for the use of non-probability sampling is to allow the researcher to include any category of the population that is of interest to him. Though result from a non-probability sample may not be generalized on the entire population, it gives the researcher the opportunity of analyzing elements that is of specific interest.

## 3.4 Method of Data Collection Instruments

The data collection instruments used for this study were from secondary source. These sources include The Central Bank of Nigeria Annual Report and The Central Bank of Nigeria Statistical Bullion, Journal from The Nigerian Stock Exchange, and The Nigerian Bureau of Statistics e.t.c.

### 3.4.1 Test for Validity & Reliability of Data Collection Instruments

Since no questionnaire was employed to gather data the inherent pitfalls which are usually mitigated by asking two or more corollary questions was totally avoided in this research work. The validity and reliability of the data collected is based on the sameness of facts and figures collected from multiple data sources.

## 3.5 Methods of Data Presentation and Analysis

The data collected for this study were presented in frequency tables and line graphs. The objective is to aid easier representation of data and ensure adequate and comprehensible data presentation.

In the test of hypotheses the Raw Score (or computational) method of the correlation measure of association was employed, with the values of correlation coefficient ranging from -1.0 through 0, to +1.0. The correlation coefficient ( r ) was tested against a critical value of 3.1825.

## 3.6 Justification of the Method Used

The option of using a non-probability sampling technique to obtain sample for this study is not farfetched. The researcher's singular choice of budget deficit in the evaluation of the economic growth of the Nigerian economy cannot be deemphasized. This sector comprises part of the nucleus of economic growth of any nation. In addition the World Bank and the International Monetary Fund classify the International Community using such variable as a contributor to Gross Domestic Product (GDP).

The data collection instruments used for this study were from secondary source. The use of secondary sources in this research study is highly justified as the reliability of the primary sources may be difficult to assess despite the use of corollary questions. Owing to the fact that potential respondents may lack adequate information to base

their decisions on. Ultimately, making the results biased and not truly representative of the actual.

The justification for the use of tabular presentation and line graphs for data presentation is to ensure clarity, tidiness, and easier comprehension of data presented.

The preference for the use of the Raw Score (or computational) method for testing the hypotheses is undoubtedly drawn from the objective of establishing a relationship between the budget deficit and economic growth.

# CHAPTER FOUR

# DATA PRESENTATION AND ANALYSIS

## 4.1 Introduction

This chapter provides a detailed presentation of data in the form of frequency tables and charts. It analyzes data collected from multiple sources; it tests hypotheses formulated for the study. Finally, it provides a brief summary of findings.

## 4.2 Data Presentation and Analysis

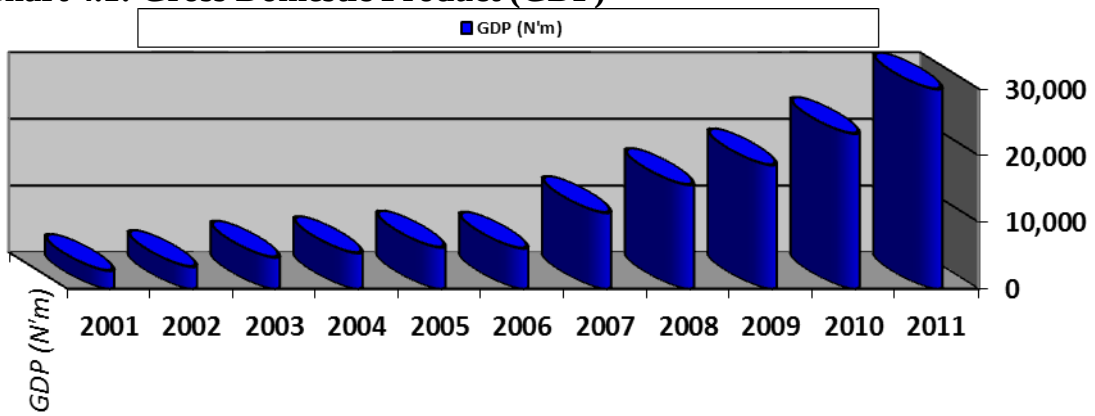
**Table 4.1: Gross Domestic Product (GDP) at Current Factor Cost**

| Year | Naira (N'Billion) |
|---|---|
| 2001 | 2,721.18 |
| 2002 | 3,313.56 |
| 2003 | 4,727.52 |
| 2004 | 5,374.33 |
| 2005 | 6,232.24 |
| 2006 | 6,061.70 |
| 2007 | 11,411.07 |
| 2008 | 15,610.88 |
| 2009 | 18,564.59 |
| 2010 | 23,280.72 |
| 2011 | 29,953.82 |

**Source:** CBN Annual Report & Statement of Account for the year ended 31st December 2012

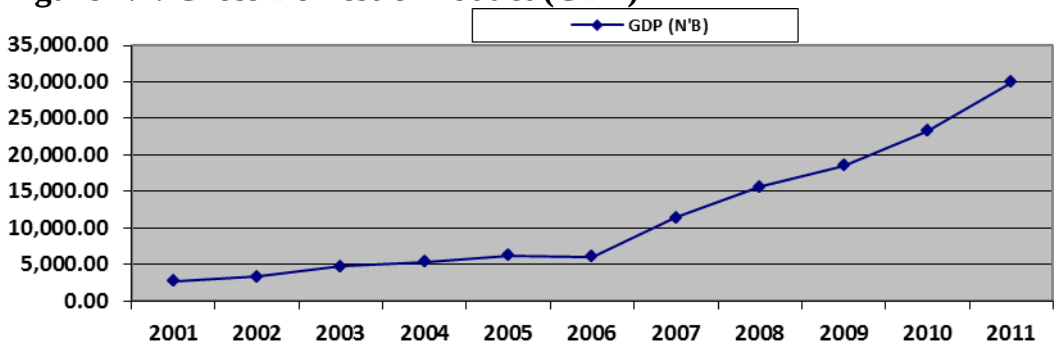
The above table 4.1 indicates a positive growth in Gross Domestic Product since 2001. The year by year growth of GDP from 2001 to 2011 ranged from 21.77% to 28.66%. This geometric growth in GDP from ₦2,721.18 billion in 2001 to ₦29,953.82 billion in 2011 represents a 1000.77% growth in GDP from 2007 to 2011. This laudable achievement in economic growth is attributed to the Bank Consolidation exercise initiated in 2011 by the Central Bank of Nigeria and increase in number of Small and Medium Scale enterprise in the country compared to before. From the above it is also indicative that the Nigerian investing public has renewed confidence in her economy in terms of entrepreneurship. In addition, Chart 4.1 and Figure 4.1 below provides a lucid graphical representation of the above data. The upward slope further points to the positive astronomical growth in GDP.

**Chart 4.1: Gross Domestic Product (GDP)**




**Source:** CBN Annual Report & Statement of Account for the year ended 31st December 2012

**Figure 4.1: Gross Domestic Product (GDP)**




**Source:** CBN Annual Report & Statement of Account for the year ended 31st December 2012

**Table 4.2: Government Total Expenditure (Recurrent and Capital)**

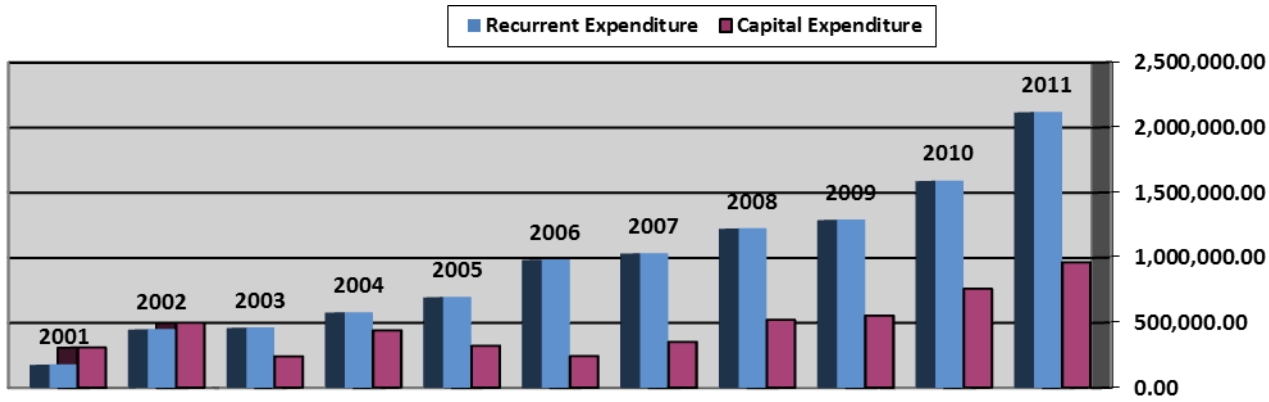
| Year | Re-current (₦'m) | Capital (₦'m) | Total (₦'m) |
|---|---|---|---|
| 2001 | 178,097.8 | 309,015.6 | 489,111.4 |
| 2002 | 449,662.4 | 498,027.6 | 949,689.0 |
| 2003 | 461,600.0 | 239,450.9 | 703,050.9 |
| 2004 | 579,300.0 | 438,696.5 | 1,019,997.5 |
| 2005 | 696,800.0 | 321,378.1 | 1,020,180.1 |
| 2006 | 984,300.0 | 241,378.1 | 1,227,681.1 |
| 2007 | 1,032,700.0 | 351,300.0 | 1,386,004.0 |
| 2008 | 1,223,700.0 | 519,500.0 | 1,745,205.0 |
| 2009 | 1,290,201.9 | 552,385.8 | 1,844,593.7 |
| 2010 | 1,589,270.0 | 759,323.0 | 2,350,600.0 |
| 2011 | 2,117,400.0 | 960,900.0 | 3,080,308.0 |

**Source:** CBN Annual Report & Statement of Account for the year ended 31st December 2012

The above table 4.2 signifies an upward growth in aggregate government expenditure. From 2001 to 2011 aggregate government expenditure grew by 529.78%. The recurrent expenditure of the government grew by 1088.90% from 2001 to 2007,

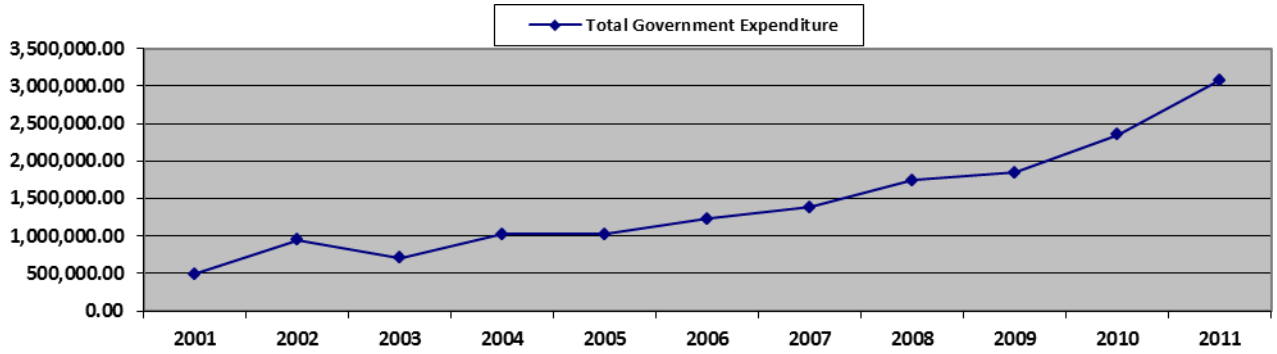
likewise the capital expenditure grew by 210.96% from 2001 to 2011. The growth in Sectoral Loans and Advances grew only by 5.4% in 2007 over 2009 and 8.69% in 2011 over 2010. This growth in the government's expenditure which cause for a deficit in its budget had lead to an increase in its GDP (i.e. Economic Growth). Chart 4.2 and Figure 4.2 below provides a lucid graphical representation of the above data. The upward slope further points to the positive astronomical growth in Government Expenditure (Recurrent and Capital).

**Chart 4.2: Government Expenditure (Recurrent and Capital)**




**Source:** CBN Annual Report & Statement of Account for the year ended 31st December 2012

**Figure 4.2: Total Government Expenditure**




**Source:** CBN Annual Report & Statement of Account for the year ended 31st December 2012

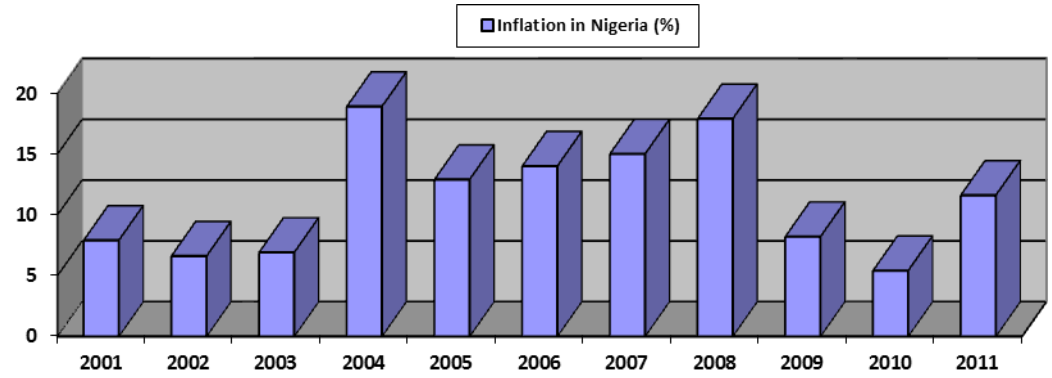
**Table 4.3: Nigeria Inflation Rate (%)**

| Year | Inflation |
|---|---|
| 2001 | 7.9 |
| 2002 | 6.6 |
| 2003 | 6.9 |
| 2004 | 18.9 |
| 2005 | 12.9 |
| 2006 | 14.0 |
| 2007 | 15.0 |
| 2008 | 17.9 |
| 2009 | 8.2 |
| 2010 | 5.4 |
| 2011 | 11.6 |

**Source:** CBN Bulletin, 2012.

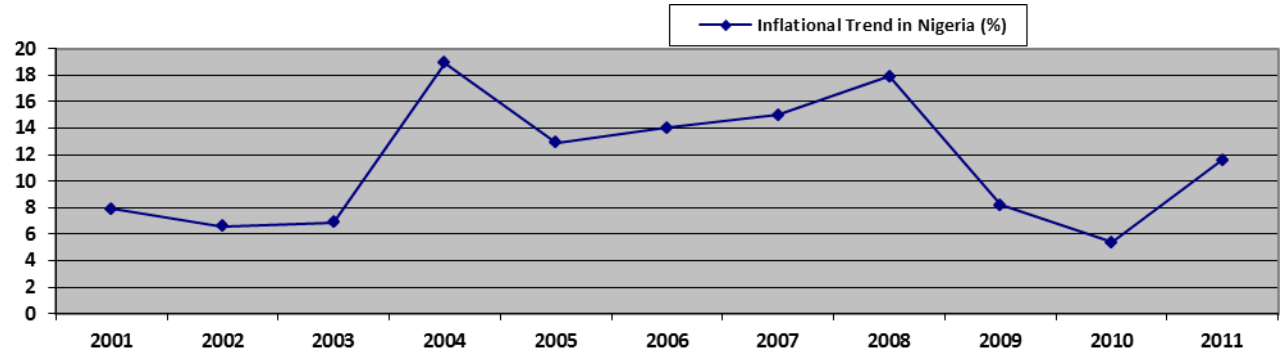
The above table 4.3 signifies an upward growth in inflation rate of Nigeria. From 2001 to 2011 grew by 46.84%. The inflation rate had its highest peak in the year 2004 with 18.9% and dropped to by 6.0%. it rise in an arithmetic progression to 17.9% in 2008 and it later dropped to 8.2% in 2003, further slopes down to 5.4% in 2010. In 2011 the inflation rate rises in a geometric progression to 11.6%. The fluctuation and the hike in inflation from 2001 to 2011 can be linked with the growth in the government's expenditure being experienced in the country. Chart 4.3 and Figure 4.3 below provides a lucid graphical representation of the above data. The upward slope further points to the positive astronomical growth in Government Expenditure (Recurrent and Capital) that lead to a high inflation.

**Chart 4.3: Inflation Rate (%)**




**Source:** CBN Statistical Bulletin, 2012.

**Figure 4.3: Inflation Rate (%)**




**Source:** CBN Statistical Bulletin, 2012.

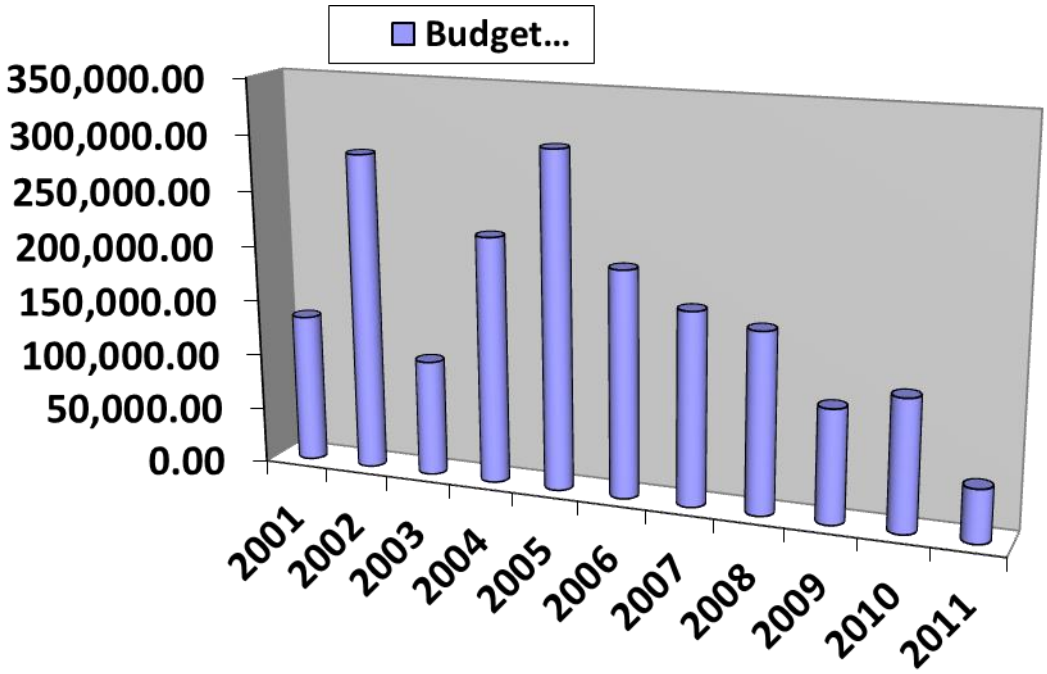
**Table 4.4:** Nigerian Total Budget Deficit

| Year | Budget Deficit Amount (N'b) | % of GDP |
|---|---|---|
| **2001** | 133.39 | 3.3 |
| **2002** | 285.10 | 5.9 |
| **2003** | 103.78 | 1.5 |
| **2004** | 221.05 | 3.1 |
| **2005** | 301.40 | 3.8 |
| **2006** | 202.72 | 2.3 |
| **2007** | 172.60 | 1.51 |
| **2008** | 161.41 | 1.1 |
| **2009** | 101.40 | 0.55 |
| **2010** | 117.24 | 0.57 |
| **2011** | 47.38 | 0.20 |

**Source:** CBN Statistical Bulletin, 2012.

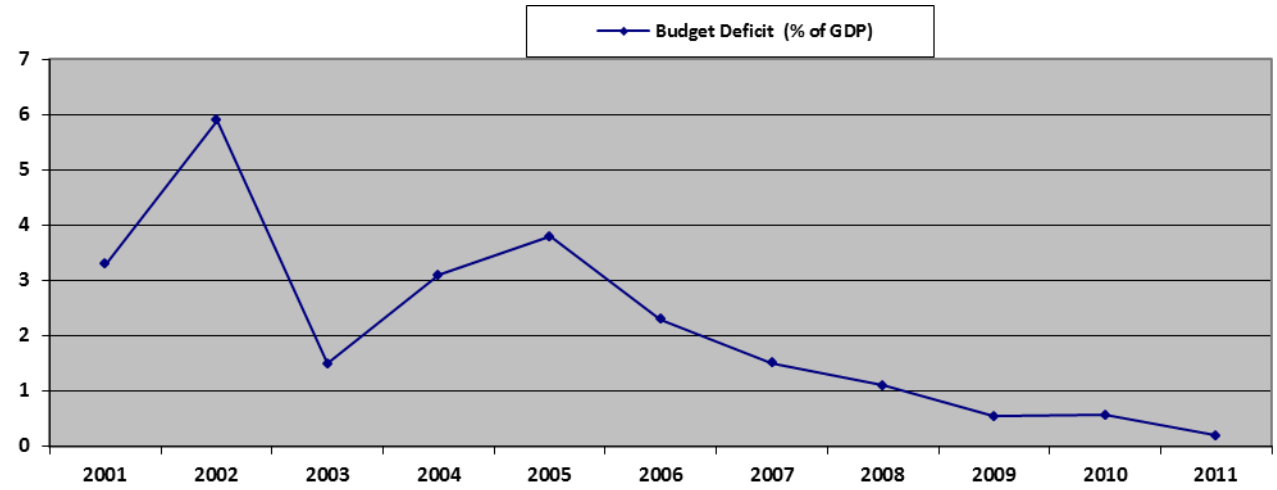
The above table 4.4 signifies a downward fluctuation of deficit amount on the Nigerian budget from the year 2001 to 2011. From 2001 to 2011 deficit amount drop by -64.48%. The deficit amount had its highest peak in the year 2005 with an increase by 125.95% from 2001 and dropped by -84.28%. We can see that the percentage of deficit to the GDP has continued to drop tremendously from the year 2007. Chart 4.4 and Figure 4.4 below provides a lucid graphical representation of the above data. The downward slope further points to the negative astronomical growth in budget deficit amount.

**Chart 4.4:** Nigerian Budget Deficit Amount (N'b)




**Source:** CBN Statistical Bulletin, 2012.

**Figure 4.4:** Nigerian Budget Deficit Amount (% to GDP)




**Source:** CBN Statistical Bulletin, 2012.

## 4.3 Test of Hypotheses

In testing the Hypotheses formulated in Chapter one, The Raw Score (or Computational) method was adopted.

**Decision Rule:**

The hypotheses shall either be accepted or rejected based on value of the correlation coefficient that lies from range -0.1 through 0, to 1.0.

A High correlation coefficient indicates a high degree of relationship.

A Low correlation coefficient indicates a low degree of relationship.

A Positive coefficient indicates a direct relationship.

A Negative coefficient indicates an inverse relationship.

Below is the formula for correlation coefficient denoted (r)

$$\textbf{Correlation co-efficient (r)} = \sqrt{\frac{N\sum XY - \sum X \sum Y}{[N\sum X^2 - (\sum X)^2][N\sum Y^2 - (\sum Y)^2]}}$$

Source: Adopted from Statistics by Spiegel (1999).

**Hypothesis One**

**$H_0$:**There is no relationship between Government Expenditure and Economic Growth of the Nigerian Economy.

**$H_1$:** There is a relationship between Government Expenditure and Economic Growth of the Nigerian Economy.

X= Government Total Expenditure (Trillion Naira).
Y= GDP at Current Factor Cost (Billion Naira).

**Table 4.5**

| Year | X | Y | $X^2$ | $Y^2$ | XY |
|---|---|---|---|---|---|
| 2001 | 489.11 | 2,721.20 | 239228.5921 | 7404929.44 | 1330966.132 |
| 2002 | 949.69 | 3,313.60 | 901911.0961 | 10979944.96 | 3146892.784 |
| 2003 | 703.05 | 4,727.50 | 494279.3025 | 22349256.25 | 3323668.875 |
| 2004 | 1,020.00 | 5,374.30 | 1040400 | 28883100.49 | 5481786 |
| 2005 | 1,020.18 | 6,232.20 | 1040767.232 | 38840316.84 | 6357965.796 |
| 2006 | 1,227.68 | 6,061.70 | 1507198.182 | 36744206.89 | 7441827.856 |
| 2007 | 1,386.00 | 11,411.10 | 1920996 | 130213203.2 | 15815784.6 |
| 2008 | 1,745.21 | 15,610.90 | 3045757.944 | 243700198.8 | 27244298.79 |
| 2009 | 1,844.59 | 18,564.60 | 3402512.268 | 344644373.2 | 34244075.51 |
| 2010 | 2,350.60 | 23,280.70 | 5525320.36 | 541990992.5 | 54723613.42 |
| 2011 | 3,080.31 | 29,953.80 | 9488309.696 | 897230134.4 | 92266989.68 |
| **Total (∑)** | **15,816.42** | **127,251.60** | **28,606,680.67** | **2,302,980,657** | **251,377,869.4** |

N = **11**
∑X = **15,816.42**
∑Y = **127,251.60**
$\sum X^2$ = **28,606,680.67**
$\sum Y^2$ = **2,302,980,657.00**
∑XY = **251,377,869.40**

Substituting these values in the Formula below, we obtain:

**Correlation co-efficient (r) =** $\dfrac{n\sum xy - \sum x \sum y}{\left[\sqrt{n(\sum x^2) - (\sum x)^2}\right]\left[\sqrt{n(\sum y^2) - (\sum y)^2}\right]}$

$$r = \frac{11(251377869.4)-(15816.60)(127251.60)}{\left[\sqrt{11(28606680.67)-(15816.60)^2}\right]\left[\left[\sqrt{11(2302980657)-(127251.60)^2}\right]\right]}$$

$$r = \frac{2765156564-2012664751}{\left[\sqrt{314673487.3-25019141.6}\right]\left[\left[\sqrt{25332787227-16192969703}\right]\right]}$$

$$r = \frac{752491812.6}{\left[\sqrt{64514345.8}\right]\left[\sqrt{9139817524.22}\right]}$$

$$r = \frac{752491812.6}{[8032.082283][95602.39]}$$

$$r = \frac{752491812.6}{7676886286.02}$$

$$r = \underline{\mathbf{0.9799521443570}}$$

The coefficient of correlation between Nigerian Government Expenditure and Gross Domestic Product (GDP) at Current Factor Cost is 0.9799521 (97.995%) implying a high degree of positive relationship between the Nigerian Government Expenditure and the Nigerian Economic Growth.

**Hypothesis Two**

**$H_0$:**Budget Deficit has no influence on the Nigerian Economic Growth.

**$H_1$:**Budget Deficit has an influence on the Nigerian Economic Growth.

X= Budget Deficit of the Nigerian Economy.

Y= Gross Domestic Product (GDP) at Current Factor Cost

**Table 4.6**

| Year | X | Y | $X^2$ | $Y^2$ | XY |
|---|---|---|---|---|---|
| 2001 | 133.39 | 2,721.20 | 17,792.89 | 7,404,929.44 | 362,980.87 |
| 2002 | 285.1 | 3,313.60 | 81,282.01 | 10,979,944.96 | 944,707.36 |
| 2003 | 103.78 | 4,727.50 | 10,770.29 | 22,349,256.25 | 490,619.95 |
| 2004 | 221.05 | 5,374.30 | 48,863.10 | 28,883,100.49 | 1,187,989.02 |
| 2005 | 301.4 | 6,232.20 | 90,841.96 | 38,840,316.84 | 1,878,385.08 |
| 2006 | 202.72 | 6,061.70 | 41,095.40 | 36,744,206.89 | 1,228,827.82 |
| 2007 | 172.6 | 11,411.10 | 29,790.76 | 130,213,203.21 | 1,969,555.86 |
| 2008 | 161.41 | 15,610.90 | 26,053.19 | 243,700,198.81 | 2,519,755.37 |
| 2009 | 101.4 | 18,564.60 | 10,281.96 | 344,644,373.16 | 1,882,450.44 |
| 2010 | 117.24 | 23,280.70 | 13,745.22 | 541,990,992.49 | 2,729,429.27 |
| 2011 | 47.38 | 29,953.80 | 2,244.86 | 897,230,134.44 | 1,419,211.04 |
| **Total (∑)** | **1,847.47** | **127,251.60** | **372,761.64** | **2,302,980,656.98** | **16,613,912.08** |

N = **11**
$\sum X$ = **1,847.47**
$\sum Y$ = **127,251.60**
$\sum X^2$ = **372,761.64**
$\sum Y^2$ = **2,302,980,656.98**
$\sum XY$ = **16,613,912.08**

Substituting these values in the Formula below, we obtain:

**Correlation co-efficient (r) =** $$\frac{n\sum xy - \sum x \sum y}{\left[\sqrt{n(\sum x^2) - (\sum x)^2}\right]\left[\sqrt{n(\sum y^2) - (\sum y)^2}\right]}$$

$$r = \frac{11(16613912.08) - (1847.47)(127251.60)}{\left[\sqrt{11(372761.64) - (1847.47)^2}\right]\left[\sqrt{11(2302980656.98) - (127251.60)^2}\right]}$$

$$r = \frac{182753032.86 - 235093513.45}{\left[\sqrt{4100378.06 - 3413145.42}\right]\left[\sqrt{25332787227 - 16192969703}\right]}$$

$$r = \frac{52340480.59}{\left[\sqrt{687232.66}\right]\left[\sqrt{9139817524.22}\right]}$$

$$r = \frac{52340480.59}{[68396.39][95602.39]}$$

$$r = \frac{52340480.59}{79253902.55}$$

$$r = \underline{\mathbf{0.660415183507355}}$$

The coefficient of correlation between the Nigerian budget deficit and Gross Domestic Product (GDP) is 0.6604518 (66.04518%) implying a high degree of impact of Budget Deficit on Economic Growth.

## 4.4 Test of Significance of ( R ):

Under the assumption that the variables X and Y have a Joint Normal Distribution

$$T = r \times \sqrt{\frac{n-2}{1-(r)^2}}$$

**Source:** Adopted from Statistics by Spiegel (1999).

**Decision rule:**

**$H_0$:** is accepted at the 5% significance level if [t] < t α/2 (n-2)

Otherwise the null hypothesis is rejected in favour of the alternative hypothesis.

**Hypothesis One:**

Degree of freedom = n – 2
= 11 – 2
= 9

The critical value of t for a/2= 0.025 and at 9 degrees of freedom is 2.26216 (see table below)

$$T = r \times \sqrt{\frac{n-2}{1-r^2}}$$

$$T = (0.9799521443570410000) \times \sqrt{\frac{11-2}{1-(0.9799521443570410000)^2}}$$

$$T = (0.9799521443570410000) \times \sqrt{\frac{9}{1-0.9603062052299630}}$$

$$T = (0.9799521443570410000) \times \sqrt{\frac{9}{0.0396937947700365}}$$

$$T = (0.9799521443570410000) \times \sqrt{226.7356914}$$

T = (0.9799521443570410000) x 15.05774523

T = **14.75586973**

Since the value of t = 14.75587 is greater than $t_{(0.025)}$ 9, = 2.26216 we reject the null hypothesis and accept the alternative hypothesis which conclude that There is a relationship between Government Expenditure and Economic Growth of the Nigerian Economy.

**Table 4.7:** t – Test Table

| df\p | 0.40 | 0.25 | 0.10 | 0.05 | 0.025 | 0.01 | 0.005 | 0.0005 |
|---|---|---|---|---|---|---|---|---|
| **1** | 0.324920 | 1.000000 | 3.077684 | 6.313752 | 12.70620 | 31.82052 | 63.65674 | 636.6192 |
| **2** | 0.288675 | 0.816497 | 1.885618 | 2.919986 | 4.30265 | 6.96456 | 9.92484 | 31.5991 |
| **3** | 0.276671 | 0.764892 | 1.637744 | 2.353363 | 3.18245 | 4.54070 | 5.84091 | 12.9240 |
| **4** | 0.270722 | 0.740697 | 1.533206 | 2.131847 | 2.77645 | 3.74695 | 4.60409 | 8.6103 |
| **5** | 0.267181 | 0.726687 | 1.475884 | 2.015048 | 2.57058 | 3.36493 | 4.03214 | 6.8688 |
| **6** | 0.264835 | 0.717558 | 1.439756 | 1.943180 | 2.44691 | 3.14267 | 3.70743 | 5.9588 |
| **7** | 0.263167 | 0.711142 | 1.414924 | 1.894579 | 2.36462 | 2.99795 | 3.49948 | 5.4079 |
| **8** | 0.261921 | 0.706387 | 1.396815 | 1.859548 | 2.30600 | 2.89646 | 3.35539 | 5.0413 |
| **9** | 0.260955 | 0.702722 | 1.383029 | 1.833113 | 2.26216 | 2.82144 | 3.24984 | 4.7809 |
| **10** | 0.260185 | 0.699812 | 1.372184 | 1.812461 | 2.22814 | 2.76377 | 3.16927 | 4.5869 |
| **11** | 0.259556 | 0.697445 | 1.363430 | 1.795885 | 2.20099 | 2.71808 | 3.10581 | 4.4370 |
| **12** | 0.259033 | 0.695483 | 1.356217 | 1.782288 | 2.17881 | 2.68100 | 3.05454 | 4.3178 |
| **13** | 0.258591 | 0.693829 | 1.350171 | 1.770933 | 2.16037 | 2.65031 | 3.01228 | 4.2208 |
| **14** | 0.258213 | 0.692417 | 1.345030 | 1.761310 | 2.14479 | 2.62449 | 2.97684 | 4.1405 |
| **15** | 0.257885 | 0.691197 | 1.340606 | 1.753050 | 2.13145 | 2.60248 | 2.94671 | 4.0728 |
| **16** | 0.257599 | 0.690132 | 1.336757 | 1.745884 | 2.11991 | 2.58349 | 2.92078 | 4.0150 |
| **17** | 0.257347 | 0.689195 | 1.333379 | 1.739607 | 2.10982 | 2.56693 | 2.89823 | 3.9651 |
| **18** | 0.257123 | 0.688364 | 1.330391 | 1.734064 | 2.10092 | 2.55238 | 2.87844 | 3.9216 |
| **19** | 0.256923 | 0.687621 | 1.327728 | 1.729133 | 2.09302 | 2.53948 | 2.86093 | 3.8834 |
| **20** | 0.256743 | 0.686954 | 1.325341 | 1.724718 | 2.08596 | 2.52798 | 2.84534 | 3.8495 |
| **21** | 0.256580 | 0.686352 | 1.323188 | 1.720743 | 2.07961 | 2.51765 | 2.83136 | 3.8193 |
| **22** | 0.256432 | 0.685805 | 1.321237 | 1.717144 | 2.07387 | 2.50832 | 2.81876 | 3.7921 |
| **23** | 0.256297 | 0.685306 | 1.319460 | 1.713872 | 2.06866 | 2.49987 | 2.80734 | 3.7676 |
| **24** | 0.256173 | 0.684850 | 1.317836 | 1.710882 | 2.06390 | 2.49216 | 2.79694 | 3.7454 |
| **25** | 0.256060 | 0.684430 | 1.316345 | 1.708141 | 2.05954 | 2.48511 | 2.78744 | 3.7251 |
| **26** | 0.255955 | 0.684043 | 1.314972 | 1.705618 | 2.05553 | 2.47863 | 2.77871 | 3.7066 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **27** | 0.255858 | 0.683685 | 1.313703 | 1.703288 | 2.05183 | 2.47266 | 2.77068 | 3.6896 |
| **28** | 0.255768 | 0.683353 | 1.312527 | 1.701131 | 2.04841 | 2.46714 | 2.76326 | 3.6739 |
| **29** | 0.255684 | 0.683044 | 1.311434 | 1.699127 | 2.04523 | 2.46202 | 2.75639 | 3.6594 |
| **30** | 0.255605 | 0.682756 | 1.310415 | 1.697261 | 2.04227 | 2.45726 | 2.75000 | 3.6460 |
| **Inf** | 0.253347 | 0.674490 | 1.281552 | 1.644854 | 1.95996 | 2.32635 | 2.57583 | 3.2905 |

**Hypothesis Two:**

Degree of freedom = n – 2
= 11 – 2
= 9

The critical value of t for a/2= 0.025 and at 9 degrees of freedom is 2.26216

$$T = r \times \sqrt{\frac{n-2}{1-r^2}}$$

$$T = (0.0660415183507355) \times \sqrt{\frac{11-2}{1-(0.0660415183507355)^2}}$$

$$T = (0.0660415183507355) \times \sqrt{\frac{9}{1-0.4361482146070530}}$$

$$T = (0.0660415183507355) \times \sqrt{\frac{9}{0.5638517853929470}}$$

$$T = (0.0660415183507355) \times \sqrt{15.9616414}$$

T = (0.0660415183507355) x 3.995202297

T = **2.638492258**

Since the value of t = 2.638492258 is greater than $t_{(0.025)}$ 9, =2.26216 we reject the null hypothesis and accept the alternative hypothesis which conclude that Budget Deficit has an influence on the Nigerian Economic Growth.

**Table 4.8:** t – Test Table

| df\p | 0.40 | 0.25 | 0.10 | 0.05 | 0.025 | 0.01 | 0.005 | 0.0005 |
|---|---|---|---|---|---|---|---|---|
| **1** | 0.324920 | 1.000000 | 3.077684 | 6.313752 | 12.70620 | 31.82052 | 63.65674 | 636.6192 |
| **2** | 0.288675 | 0.816497 | 1.885618 | 2.919986 | 4.30265 | 6.96456 | 9.92484 | 31.5991 |
| **3** | 0.276671 | 0.764892 | 1.637744 | 2.353363 | 3.18245 | 4.54070 | 5.84091 | 12.9240 |
| **4** | 0.270722 | 0.740697 | 1.533206 | 2.131847 | 2.77645 | 3.74695 | 4.60409 | 8.6103 |
| **5** | 0.267181 | 0.726687 | 1.475884 | 2.015048 | 2.57058 | 3.36493 | 4.03214 | 6.8688 |
| **6** | 0.264835 | 0.717558 | 1.439756 | 1.943180 | 2.44691 | 3.14267 | 3.70743 | 5.9588 |
| **7** | 0.263167 | 0.711142 | 1.414924 | 1.894579 | 2.36462 | 2.99795 | 3.49948 | 5.4079 |
| **8** | 0.261921 | 0.706387 | 1.396815 | 1.859548 | 2.30600 | 2.89646 | 3.35539 | 5.0413 |
| **9** | 0.260955 | 0.702722 | 1.383029 | 1.833113 | 2.26216 | 2.82144 | 3.24984 | 4.7809 |
| **10** | 0.260185 | 0.699812 | 1.372184 | 1.812461 | 2.22814 | 2.76377 | 3.16927 | 4.5869 |
| **11** | 0.259556 | 0.697445 | 1.363430 | 1.795885 | 2.20099 | 2.71808 | 3.10581 | 4.4370 |
| **12** | 0.259033 | 0.695483 | 1.356217 | 1.782288 | 2.17881 | 2.68100 | 3.05454 | 4.3178 |
| **13** | 0.258591 | 0.693829 | 1.350171 | 1.770933 | 2.16037 | 2.65031 | 3.01228 | 4.2208 |
| **14** | 0.258213 | 0.692417 | 1.345030 | 1.761310 | 2.14479 | 2.62449 | 2.97684 | 4.1405 |
| **15** | 0.257885 | 0.691197 | 1.340606 | 1.753050 | 2.13145 | 2.60248 | 2.94671 | 4.0728 |
| **16** | 0.257599 | 0.690132 | 1.336757 | 1.745884 | 2.11991 | 2.58349 | 2.92078 | 4.0150 |
| **17** | 0.257347 | 0.689195 | 1.333379 | 1.739607 | 2.10982 | 2.56693 | 2.89823 | 3.9651 |
| **18** | 0.257123 | 0.688364 | 1.330391 | 1.734064 | 2.10092 | 2.55238 | 2.87844 | 3.9216 |
| **19** | 0.256923 | 0.687621 | 1.327728 | 1.729133 | 2.09302 | 2.53948 | 2.86093 | 3.8834 |
| **20** | 0.256743 | 0.686954 | 1.325341 | 1.724718 | 2.08596 | 2.52798 | 2.84534 | 3.8495 |
| **21** | 0.256580 | 0.686352 | 1.323188 | 1.720743 | 2.07961 | 2.51765 | 2.83136 | 3.8193 |
| **22** | 0.256432 | 0.685805 | 1.321237 | 1.717144 | 2.07387 | 2.50832 | 2.81876 | 3.7921 |
| **23** | 0.256297 | 0.685306 | 1.319460 | 1.713872 | 2.06866 | 2.49987 | 2.80734 | 3.7676 |
| **24** | 0.256173 | 0.684850 | 1.317836 | 1.710882 | 2.06390 | 2.49216 | 2.79694 | 3.7454 |
| **25** | 0.256060 | 0.684430 | 1.316345 | 1.708141 | 2.05954 | 2.48511 | 2.78744 | 3.7251 |
| **26** | 0.255955 | 0.684043 | 1.314972 | 1.705618 | 2.05553 | 2.47863 | 2.77871 | 3.7066 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **27** | 0.255858 | 0.683685 | 1.313703 | 1.703288 | 2.05183 | 2.47266 | 2.77068 | 3.6896 |
| **28** | 0.255768 | 0.683353 | 1.312527 | 1.701131 | 2.04841 | 2.46714 | 2.76326 | 3.6739 |
| **29** | 0.255684 | 0.683044 | 1.311434 | 1.699127 | 2.04523 | 2.46202 | 2.75639 | 3.6594 |
| **30** | 0.255605 | 0.682756 | 1.310415 | 1.697261 | 2.04227 | 2.45726 | 2.75000 | 3.6460 |
| **Inf** | 0.253347 | 0.674490 | 1.281552 | 1.644854 | 1.95996 | 2.32635 | 2.57583 | 3.2905 |

## 4.5 Summary of finding

From the analysis of the data presented above the following findings are elucidated below;

i) A high positive relationship exists between Government Expenditure and the Economic Growth of the Nigerian Economy. From the analysis of hypothesis one the result represents a high positive relationship.

ii) A high positive influence of the budget deficit on the Nigerian economic growth. The analysis of hypothesis two depicted a very high positive influence of budget deficit on Nigerian economic growth.

iii) From the above it is also indicative that the Nigerian investing public has renewed confidence in the economy in terms of entrepreneurship which had led to increase in small and medium scale enterprise which leads to increase in economic activities.

iv) There is a growth in the government's expenditure which call for borrowing in order to meet up with the economic budget this had led to an increase in its GDP (i.e. Economic Growth).

v) The fluctuation and the hike in inflation from 1998 to 2008 can be linked with the growth in the government's expenditure being experienced in the country.

vi) There is an upward astronomical growth in budget deficit amount in the economy.

# CHAPTER FIVE

# SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

## 5.1 Summary

This research work identified the relationship between the Government Expenditure and Economic Growth, and also the impact of budget deficit on economic growth. The research work answered the research questions and test hypotheses formulated in chapter one. The study adopted a Non-Probabilistic Sampling Technique and this naturally limited the generalization of the research finding on the entire population.

Looking at our first hypothesis we observed that the Coefficient of Correlation between Government Expenditure and Economic Growth of the Nigerian Economy is implying a positive correlation with 0.97995 (97.995%). The observation is statistically significance because the calculated t – test value 14.75587 is greater than the critical table – value $t_{(0.025)}$ 9, = 2.26216. We therefore, reject the $H_0$ and accept the $H_1$.

On the other hand, the second hypothesis, it is observed that the Coefficient of Correlation between the Budget deficit and the Nigerian economic growth (GDP) is 0.66415 (66.415), implying a positive correlation. It is also observed that the

calculated t – value 2.63849 is greater than the critical t – value $t_{(0.025)}$ 9, = 2.26216, we therefore also have to reject the $H_0$ and accept the $H_1$.

it is also observed that the Nigerian investing public has renewed confidence in the economy in terms of entrepreneurship which had led to increase in small and medium scale enterprise which lead to increase in economic activities. There is a growth in the government's expenditure which call for borrowing in order to meet up with the economic budget this had lead to an increase in its GDP (i.e. Economic Growth). The fluctuation and the hike in inflation from 2001 to 2011 can be linked with the growth in the government's expenditure being experienced in the country. There is an upward astronomical growth in budget deficit amount in the economy.

## 5.2 Conclusion

The framework for the study has its basis on the Keynesian and endogenous growth models. The Keynesian model states that expansion of government expenditure accelerates economic growth. Although, endogenous growth models do not assign any important role to government in the growth process, authors like Barro (1990), Barro and Salai (1992), and Easterly and Rebelo (1993) emphasized the importance of government (activity) policy in economic growth. Moreover, some authors focused on the components of government expenditure that are productive or unproductive Kneller et al (1999), while others submitted that composition of government expenditure might exert more influence compare to the level of government expenditure Nijkamp and Poot (2004). The level of government expenditure and composition of government expenditure are important determinants of growth. Thus,

our model expresses economic growth as a function of various levels and components of government expenditure that include total capital expenditure, total recurrent expenditure, expenditures on defense, agriculture, transport and communication, education and health. In addition, we include inflation and overall government fiscal balance, since they can have lasting impact on economic growth.

Unfortunately, rising government expenditure has not translated to meaningful growth and development, as Nigeria ranks among the poorest countries in the world. In addition, many Nigerians have continued to wallow in abject poverty, while more than 50 percent live on less than US$2 per day. Couple with this, is dilapidated infrastructure (especially roads and power supply) that has led to the collapse of many industries, including high level of unemployment. Moreover, macroeconomic indicators like balance of payments, import obligations, inflation rate, exchange rate, and national savings reveal that Nigeria has not fared well in the last couple of years CBN (2011).

The two main alternatives at governments'disposal in order to cover their budget deficits (namely the monetary financing and the nonmonetary financing) have a different impact on inflation. As the monetary financing supposes the creation of new money in order to finance budget deficits, it generally involves a greater probability of an inflationary increase of prices to incure, directly depending on the destination of the resources collected by governments in this way. Because of the negative effects inflation has at different levels of economic and social life, it was prohibited by law in most of contemporary economies that state authorities directly resort to the resources of the central bank in order to finance the budget deficit.

Whether it is better to have a budget surplus or a deficit, the budget has clear-cut consequences for the economy. In the short run, whether the budget is in surplus, makes little difference to economic performance. In the short run, it is *changes* in the surplus or deficit that can affect the rate of economic growth. A reduction in the deficit would tend to be contractionary, while an increase in the deficit would tend to be stimulative. Those effects, however, are likely to be short lived.

In the long run, a shift from a budget surplus to a deficit represents a reduction to national saving. Less saving means a shift from future to present consumption. Consuming more now means less investment now, a lower level of output of goods and services in the future, and thus, less to consume in the future than otherwise would have been the case. To the extent that investment is financed by importing capital from abroad, some of that higher output will be paid to foreigners. Even with a budget deficit, the outstanding federal debt may still fall, relative to GDP, but that depends on the size of the deficit, and of the interest payment on the outstanding debt. A rising debt-to-GDP ratio eventually poses the risk of accelerating inflation.

## 5.3 Recommendations

The following recommendations are based on the research findings. Care has been taken by the researcher while making generalization, as the limitation created by the sample size is not overlooked. Below is a list of recommendations.

1. This way, at the present time states can only use public loans in order to cover the surplus of public expenditures over current incomes. As it supposes temporary redistribution processes of disposable resources already existent in

the economy, this way of financing budget deficits generally does not have an inflationary character.

2. The continuous concern of contemporary governments to reduce or to maintain, within acceptable limits, the budget deficits is justified, in order to fight against inflation and its negative effects.
3. Effort should be made by the government to settle the outstanding domestic debt. This will give room for proper conduct of monetary policy in the economy.
4. It will be healthy if the government strive to finance budget deficit by improving on the present revenue base rather than resulting to domestic borrowing. This can be achieved by improving its revenue sources and efficient pursuit of tax reforms.
5. Commitment to budget should be encouraged for fiscal discipline on the part of the government and its agencies. The government and the Debt Management Office (DMO) should drawn up guidelines to limit the growth of future domestic debt.
6. Effective mechanism should be put in place to ensure that any new borrowing is judiciously utilized to contribute to economic growth.

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