The Economic Performance of Budget Deficit in Nigeria

FAGBOHUN Akinola
Department of Economics, Lead City University, Ibadan, Nigeria

Abstract
This study examines the impact of budget deficit on economic performance in Nigeria between 1970 and 2013. The study incorporated bank rate, broad money supply, external reserves and fiscal balance as the independent variables, while, economic performance is measured by per capita income, unemployment rate and price stability. Using the least square method, the results revealed that both budget deficits and external reserves have positive and significant impact on capita income, whereas bank rate and money supply have indirect and insignificant on the same per capita income. Unfortunately, budget deficits, money supply and external reserves doesn’t creates growth that enhance employment rate in Nigeria. However, the result shows that bank rate reduces unemployment rate. Similarly, budget deficits, money supply and bank rate cause price instability but the result of bank rate reports the opposite. The government should formulate policy that would check the channels of government expenditure in order to find out why the huge spending has not translated into a viable economic performance in terms of price stability and growth that guarantees employment creation.

Keywords: Fiscal balance, per capita income, unemployment rate, price stability, Nigeria.

1. Introduction
The net public expenditure has been inevitable due to the dominant role of the public sector towards initiating and financing economic development as well as the resultant growth in public spending in most developing countries. This has recently resulted to rising negative fiscal balances (budget deficit) which have become common feature in their economies. In addition, the growth in public expenditure may stimulate budget deficit which is expected to be financed by public revenues in different ways. Past historical macroeconomic concern has attributed the consequences to the interrelationship between budget deficit and its mode of financing. In relation to the rising fiscal deficit, Ariyo (1993) ascribed this new development as a consequence of the increased demand of the populace and the desire to enhance economic growth and development. The gap occurs due to the many problems that have bedevilled the revenue generation system in these countries (Fasoranti & Amasoma, 2013) due to improper or untimely fiscal policy formulation.

Several studies ranging from country-specific to panel analysis with different methodology and scope coverage have been empirically carried out. For country-specific, divergent conclusions have been made in regards to various macroeconomic variables (per-capita income, debt, trade, money supply, inflation, interest rate) and fiscal balance (Hassan & Kalim, 2012; Murwirapachen, Maredza & Choga, 2013; Umeora, 2013; Wosowei, 2013), and for panel studies (Tujula & Wolswijk, 2004; Murwirapachen, Maredza & Choga, 2013). Their results also differ due to positive-negative relationship and bi-to uni- to no causality reported on different variables used.

In Nigeria, the continuous increase of fiscal deficits have been blamed for much of the economic crisis that beset them about two decades ago resulting in over indebtedness and debt crisis, high inflation, poor investment and growth (Chimobi & Igwe, 2010). For instance, the country recorded an increase in budget deficits from ₦3,902.10 million in 1981 to ₦8,254.30 million in 1986 to ₦15,134.70 million in 1989 but catapulted to ₦133,389.30 million and ₦301,401.60 million in 1998 and 2002 respectively (CBN, 2012). As of 2003-2006, government fiscal deficits witnessed a moderate declined from ₦202,724.70 million in 2003, ₦172,601.30 million in 2004, ₦161,406.30 million in 2005, to ₦101,397.50 million in 2006 (CBN, 2012). The causes of the persistent annual increase of fiscal deficits are bloating of government bureaucracy, cost of providing critical infrastructures and shortage of revenue generation, etc (Umeora, 2013). For example; a rundown of government annual expenditure from 1970 (at the end of the Nigeria–Biafra war) to 2014 shows that the government ran annual deficits for 39 years.

On the basis of the foregoing, this study investigates the effect of budget deficits on economic performance in Nigeria for the periods of 1970-2014. The paper is divided into five. The first part presents the introductory section. The second section discusses the literature review, while the third section presents the methodology of the study. Section four presents the data analysis, results and discussion. The last section discusses the conclusion and policy options.

2. Literature Review
Budget or fiscal balance is the difference between government revenues (e.g., tax) and spending i.e. Tax Revenue – Government Expenditure. A positive balance is called a government budget surplus, and a negative balance is called a government budget deficit (Akrani, 2011). For instance, a large
proportion of the Nigerian government budget balance report deficit for 39 years while surplus for 6 years within the period of 1970 to 2014. Economic performance deals with issues relating to the achievement of economic objectives. These objectives can be long term, such as sustainable growth and development, or short term, such as the stabilisation of the economy in response to sudden and unpredictable events, called economic shocks. Tracking these indicators is especially valuable to policy makers, both in terms of assessing whether to intervene and whether the intervention has worked or not. For the purpose of this study, three economic performance indicators are used, which are per capita income, unemployment and price instability. Per capita income measures the average income earned per person in a given area (city, region, country, etc.) in a specified year. Unemployment rate is defined as the percentage of the total labor force that is unemployed but actively seeking employment and willing to work. Price instability indicated by consumer price index (CPI) measures changes in the price level of a market basket of consumer goods and services purchased by households.

Two theories of fiscal policy as they relate to budget deficit are reviewed in this study. The two theories are conventional view of debt and Ricardian equivalence theorem. The conventional view developed by Elmendorf & Mankiw (1998) explained the impact of debt on saving and capital accumulation, output and income, factor prices and income distribution and exchange rate and foreign transactions. The assumption underpinning this view is that government spending on goods and services is not affected by debt policy i.e. the effect of issuing a given amount of debt and reducing taxes temporarily by an equal amount. But, in a situation where government cuts taxes today without any plans to reduce government purchases today or in the future, the conventional view of debt concluded that policy will stimulate consumption, reduce national saving and capital accumulation, and thereby depress long-term economic growth. The stand of the Ricardian equivalence is that policy will not alter consumption, capital accumulation, or growth. The situation with the tax cut and budget deficit is equivalent to the situation without it. However, the Ricardian equivalence argument is based on the insight that lower taxes and a budget deficit today require (in the absence of any change in government purchases) higher taxes in the future. Thus, the issuing of government debt to finance a tax cut represents not a reduction in the tax burden but merely a postponement of it.

Furthermore, Dabelko and McCormick (2003) examined the impact of changes in military spending on spending levels for public health in a number of countries for selected years from 1950-1972. Their major findings are that opportunity cost does exist for education and health across all nations and all years but they are weak in magnitude, then levels of economic development have little or no impact upon the opportunity cost for these policy areas. Islam (2001) in his re-examination of Wagner’s hypothesis for the USA found that the relative size of government expenditure and real Gross National Product per capita are co-integrated by using Johansen-Juselius’s co-integration approach. The study used annual data for the period of 1927-1996. Narayan (2006) in his study reported that empirical exercises on the effect of government spending which distinguish between government consumption and government capital accumulation suggest that government capital stock has a positive impact on productivity growth and that government spending had a positive and highly significant impact on output growth rates. An increase in current expenditure has positive and statistically significant growth effects while a negative relationship s detected between the capital components of public expenditure and per capita growth. The focus on capital expenditure by developing country government has the implication that they may have been misallocating public expenditure in favour of capital expenditure at the expense of current expenditure losing out in terms of growth in that process (Narayan, 2006).

In addition, Ghali and Al-Shamsi (1997) examined the causal links between fiscal policy (government expenditure) and economic growth (GDP) from 1973 to 1995 in United Arab Emirate using a cointegration and error-correction framework. The results provided evidence in support of existence of cointegration between government expenditure and GDP. The results of the causality tests showed that causation runs from government expenditure to GDP. Mansouri (2008) studied the relationship between fiscal policy and economic growth in Egypt, Morocco and Tunisia. The spans of data for each country are: 1970-2002 for Morocco, 1972-2002 for Tunisia and 1975-2002 for Egypt. The empirical results showed that 1 percent increase in public spending raised the real GDP by 1.26 percent in Morocco, 1.15 percent in Tunisia and 0.56 percent in Egypt. The results also indicated existence of long-run relationships for all the three countries.

Also, Enache (2009) investigated the connection between fiscal policy and economic growth in Romania using Forecasted time series data which covered periods between 1992 and 2013. The empirical results indicated weak evidence for the positive impact of fiscal policy on economic growth. The study concluded that government authorities could use fiscal policy to affect economic growth in an indirect manner. Khosravi and Karimi (2010) investigated the impact of monetary and fiscal policies on economic growth in Iran using autoregressive distributed approach to cointegration between 1960 and 2006. The empirical results indicated existence of long-run relationship between economic growth, monetary policy and fiscal policy. The results further revealed a negative impact of exchange rate and inflation (as proxies for monetary policy), but a positive and significant impact of government expenditure on growth.

In Nigeria, Ekpo (1994) studied the contributions of public expenditure to economic growth in Nigeria.
over the periods 1960 to 1992. The findings from the study provided support for fiscal policy-led growth through crowd-in private investment resulting from government expenditure on infrastructure. Nurudeen and Usman (2009) analyzed the impact of government expenditure on economic growth in Nigeria over the period 1970 – 2008. The paper revealed that government total capital expenditure, total recurrent expenditures and expenditure on education have negative effect on economic growth while expenditures on health, transport and communication are growth enhancing. Dauda (2010) examined the effect of investment spending in education on economic growth in Nigeria using thirty-one (31) years time series data from 1977 to 2007. The study employs cointegration and error correction techniques. The result shows positive and significant effect of educational expenditure on economic growth.

For the period 1991 to 2005, Ebimobowei (2010) evaluated the effects of fiscal policy on the economic growth in Nigeria, by examining the contributions of tax revenue, government debts, government recurrent expenditure, government capital expenditure, government recurrent budget, and government capital budget to the gross domestic product. The result indicated that a significant relationship exists between the explanatory variables taken together and gross domestic product, and no significant relationship between the specific explanatory variables contributing to gross domestic product except government recurrent and capital expenditures. They concluded that the achievement of economic growth through fiscal policy in Nigeria is a mirage as a result of inconsistencies in government policies, wasteful spending, corruption and poor policy implementation.

Based on review of past studies and the Nigerian statute books, Abata, Kehinde and Bolarinwa (2012) assess how fiscal and monetary policies influence economic growth and development in Nigeria. They argued that curbing the fiscal indiscretion of government will take much more than enshrining fiscal policy rules. It was however revealed that the effect of monetary policy on economic growth in Nigeria is much stronger than that of fiscal policy. This led to the study recommending monetary policy to be employed for the purpose of economic stabilization. This is in line to the study previously carried out by Adefeso and Mobolaji (2010) by re-estimating the relative effectiveness of fiscal and monetary policy on economic growth in Nigeria using annual data 1970 to 2007. The empirical result showed that the effect of monetary policy is much stronger than fiscal and the exclusion of the degree of openness did not weaken the conclusion. Thus, this study intends to verify the statement by examining the impact of both monetary and fiscal policy on economic growth in Nigeria.

3. Methodology

3.1 Analytical Framework

Literature abounds on the relative effectiveness of budget deficit in developed and developing countries of the world. However, there has been contrasting opinions on which of the two policies exert greater influence on economic activity (Ajisafe and Folorunsho, 2002) and (Abata, Kehinde and Bolarinwa, 2012). Fiscal policy is thought to stifle economic growth by distorting the effect of tax and inefficient government spending. Therefore, in the light of the above, the question that comes to fore is what has been the effect of fiscal policy on economic growth in Nigeria.

Moreover, fiscal policy consists of the manipulation of government finances by raising or lowering taxes or levels of spending to promote economic stability and performance. This role of government sector in economic management is performed through the formulation and implementation of economic policy generally and fiscal policy in particular. It is designed to achieve the objective of price stability, growth, balance of payments equilibrium, full employment, mobilization of resources and investment. These objectives have influenced government’s economic policy design and development efforts in Nigeria since independence.

Different opinions have indeed continued to emerge on how fiscal policy can affect economic activities. The genesis of these controversies has been traced to the theoretical exposition of the different schools of thought namely: the Classical; the Keynesian; and the Neo-classical schools of thought. To the Classical school of thought, fiscal deficits incessantly financed by debt crowds-out private investment and by extension lowering the level of economic growth. As summarized by Tchokote (2001), the classical economists believe that debt issued by the public has no effect on the private sector savings. To them, a deficit financed by increasing the supply of securities, ceteris paribus reduces its price and raises real interest rates and this crowds out private investment. In sum, excessive deficit can lead to poor economic performance.

Following the above argument on the important of budget deficit on the economic performance of developed and developing countries, it reveals that fiscal policies proxy by budget deficits enhance economic performance measured by per capita income, income stability, unemployment rate and price stability as stated by Adefeso and Mobolaji (2010) and Abata, Kehinde and Bolarinwa (2012). Functionally and mathematically, it is stated as thus:

\[ Y(t) = \alpha + \beta_1 (BD_t) \]  (3.1)

\( Y \) is economic performance measured by per capita income, income stability, unemployment rate and
3.2 Model Specification

Following the theoretical postulation by different school of thought as adopted by previous studies like Adeyemo and Mobolaji (2010) and Abata, Kehinde and Bolarinwa (2012), the model adopted for analysing the inter-relationship between budget deficit and economic performance in Nigeria emanated from the theory expressed in equation (3.1). The adopted econometric model is expressed as:

\[ Y(t) = \alpha + \beta_1(BD_t) \]  

(3.2)

More so, to control the fact that budget deficits have great effect on output level, exogenous factors (control variables) are incorporated in the model (3.2) as:

\[ Y(t) = \alpha_0 + \varphi_1(BD_t) + (\rho)X_t + \mu_t \]  

(3.3)

Where; \( Y = \) output level; \( BD = \) Budget deficit, \( X = \) Control variables, \( \alpha = \) Constant, \( \varphi_1, \rho = \) Slope, \( \mu = \) error term and \( t = \) Time.

However, the empirical model adopted from the above equation (3.3) is modified taking into consideration main focus of this study, revenue minus government expenditure is taken as proxy for budget deficit. These are the most quantifiable in terms of data generation and as such should provide an acceptable approximation for fiscal policies in Nigeria. For the purpose of this study, bank rate (BR) and money supply (MS) as monetary policy instruments and external reserves (EXRS) is taken as control variables for the study. Therefore, the empirical model for this study is specified as:

\[ Y_t = \alpha_0 + \varphi_1BD_t + \omega_1BR_t + \omega_2MS_t + \rho_1EXRS + \mu_t \]  

(3.4)

Where; \( Y = \) output level; \( BR = \) Bank Rate proxy by Minimum Discount Rate; \( MS = \) broad Money Supply; \( EXRS = \) External reserves; \( BD = \) Budget deficit; \( \omega_1-2, \varphi_1, \rho_1 = \) Slope, \( t = \) Time, and \( \mu = \) Error term.

Expanding the column vector of economic performance (i.e. per capita income (PCI), unemployment rate (UNEM) and price stability proxy by inflation rate (PRST), \( Y_t = \begin{bmatrix} PCI_t \\ UNEM_t \\ PRST_t \end{bmatrix} \) into equation (3.4), it becomes:

\[ PCI_t = \alpha_0 + \varphi_1BD_t + \omega_1BR_t + \omega_2MS_t + \rho_1EXRS + \mu_t \]  

(3.5)

\[ UNEM_t = \alpha_0 + \varphi_1BD_t + \omega_1BR_t + \omega_2MS_t + \rho_1EXRS + \mu_t \]  

(3.6)

\[ PRST_t = \alpha_0 + \varphi_1BD_t + \omega_1BR_t + \omega_2MS_t + \rho_1EXRS + \mu_t \]  

(3.7)

Where; \( PCI = \) per capita income; \( UNEM = \) unemployment rate; \( PRST = \) price stability; \( BR = \) Bank Rate proxy by Minimum Discount Rate; \( MS = \) broad money supply; \( EXRS = \) External reserves; \( BD = \) budget deficit; \( \omega_1-2, \varphi_1, \rho_1 = \) slope, \( t = \) Time, and \( \mu = \) error term. The a priori expectation provides expected signs and significance of the values of the coefficients of the parameters under review on the part of the empirical evidence and theoretical assertions. Budget deficit is expected to enhance per capita income growth (+) and reduce unemployment rate (-) and price instability (-). The same signs also apply to money supply and external reserves. However, an increase in bank rate is expected to reduce per capita income growth (-) and raise unemployment rate (+) and price instability (+).

3.3 Estimation Techniques and Data Source

In estimating the multiple regression model, the unrestricted multiple Ordinary Least Square (OLS) is used. The estimated parameters are subjected to evaluation by using the student t-statistic test and F-statistic test. While, the overall stability of the specified empirical model is tested using multiple co-efficient of determination (R²), adjusted R² and Durbin-Watson test. Based on the nature of incorporated variables in the formulated model, secondary data were employed for the study. The time series data were sourced from the Central Bank of Nigeria (CBN) Statistical Bulletin, Volume 26, 2015 and World Development Indicator (April, 2015).

4. Results and Discussion

4.1 Regression Estimates of Fiscal Deficit and Per Capita Income

The long-run estimates using the ordinary least square method for the model is presented in Table 4.1. The table reported that the log of budget deficits (BD) and log of external reserve (EXRS) have positive and significant impact on log value of per capita income (PCI), and these conform with theoretical expectation. It implies that a
10% change in budget deficits (BD) and log of external reserve (EXRS) enhance the growth rate of per capita income (PCI) by 0.11% and 1.22% respectively.

**Table 4.1:** Result for Long-run Estimates

<table>
<thead>
<tr>
<th>Dependent Variable: LOG(PCI)</th>
<th>Coefficient</th>
<th>Std. Error</th>
<th>t-Statistic</th>
<th>Prob.</th>
</tr>
</thead>
<tbody>
<tr>
<td>C</td>
<td>5.996247</td>
<td>0.164467</td>
<td>36.45862</td>
<td>0.0000</td>
</tr>
<tr>
<td>LOG(BD)</td>
<td>0.010676</td>
<td>0.003278</td>
<td>3.257107</td>
<td>0.0023</td>
</tr>
<tr>
<td>BR</td>
<td>-0.008785</td>
<td>0.005586</td>
<td>-1.572736</td>
<td>0.1237</td>
</tr>
<tr>
<td>LOG(MS)</td>
<td>-0.024843</td>
<td>0.021728</td>
<td>-1.143384</td>
<td>0.2597</td>
</tr>
<tr>
<td>LOG(EXRS)</td>
<td>0.121788</td>
<td>0.033478</td>
<td>3.637832</td>
<td>0.0008</td>
</tr>
</tbody>
</table>

R-squared: 0.644831  Akaike info criterion: -0.886543
Adjusted R-squared: 0.609314  Schwarz criterion: -0.685803
F-statistic: 18.15563  Hannan-Quinn criter.: -0.811709
Prob(F-statistic): 0.000000  Durbin-Watson stat: 1.576271

*significant at 1%; **significant at 5%; ***significant at 10%

**Source:** Author’s computation (2017).

In addition, the table 4.1 shows that bank rate (BR) and the log value of money supply (MS) have indirect and insignificant relationship with the log value of per capita income (PCI) in the Nigerian economy. In magnitude terms, this implies that for a 10% growth in bank rate (BR) and the log value of money supply (MS) lead to a decrease in the growth rate of per capita income of the Nigerian economy by 0.09% and 0.25% correspondingly. The F-statistic result shows that all the incorporated per capita income growth and macroeconomic indicators are simultaneously significant at 5% critical level. Also, the adjusted R-squared result reveals that 60.9% of the total variation in output per capita growth is accounted by changes in bank rate proxy by minimum rediscount rate (BR), broad money supply (MS), external reserves (EXRS) and budget deficit (BD) during the reviewed periods. The Durbin-Watson test result reveals that there is presence of semi-strong positive serial correlation among the residuals, because of the d-value (1.5763) is approximately two. The model is not spurious since R-square is lesser than Durbin-Watson value.

**Table 4.2:** Result for Long-run Estimates

<table>
<thead>
<tr>
<th>Dependent Variable: UNEM</th>
<th>Coefficient</th>
<th>Std. Error</th>
<th>t-Statistic</th>
<th>Prob.</th>
</tr>
</thead>
<tbody>
<tr>
<td>C</td>
<td>-17.20431</td>
<td>4.812779</td>
<td>-3.574715</td>
<td>0.0009</td>
</tr>
<tr>
<td>LOG(BD)</td>
<td>0.022362</td>
<td>0.095919</td>
<td>0.233136</td>
<td>0.8168</td>
</tr>
<tr>
<td>BR</td>
<td>-0.277785</td>
<td>0.163464</td>
<td>-1.699370</td>
<td>0.0970</td>
</tr>
<tr>
<td>LOG(MS)</td>
<td>2.273475</td>
<td>0.635822</td>
<td>3.575647</td>
<td>0.0009</td>
</tr>
<tr>
<td>LOG(EXRS)</td>
<td>0.554261</td>
<td>0.979669</td>
<td>0.565763</td>
<td>0.5747</td>
</tr>
</tbody>
</table>

R-squared: 0.701536  Akaike info criterion: 5.866094
Adjusted R-squared: 0.671689  Schwarz criterion: 6.066834
F-statistic: 23.50485  Hannan-Quinn criter.: 5.940928
Prob(F-statistic): 0.000000  Durbin-Watson stat: 1.488463

*significant at 1%; **significant at 5%; ***significant at 10%

**Source:** Author’s computation (2017).

### 4.2 Regression Estimates of Budget Deficit and Unemployment Rate

The long-run estimates using the ordinary least square method for the model is presented in Table 4.2. The table shows that the log values of budget deficits (BD), money supply (MS) and external reserves (EXRS) have direct impact on unemployment rate (UNEM) of Nigeria and these do not follow a’priori expectation. In magnitude terms, this implies that for a 10% growth in budget deficits (BD), money supply (MS) and external reserves (EXRS); the unemployment rate (UNEM) of the Nigerian economy increases by 0.22%, 22.74% and 5.54% respectively. Among the three variables, only money supply (MS) is found to be significant at 5%.

Table 4.2 reported that the bank rate (BR) has negative and significant impact on unemployment rate (UNEM). It implies that a 10% change in bank rate (BR) improves the level of unemployment rate (UNEM) by 2.78%. The F-statistic result shows that all the incorporated unemployment rate (UNEM) and macroeconomic indicators are simultaneously significant at 5% critical level. Also, the adjusted R-squared result reveals that 67.2% of the total variation in unemployment rate is accounted by changes in bank rate proxy by minimum rediscount rate (BR), broad money supply (MS), external reserves (EXRS) and budget deficit (BD) during the reviewed periods. The Durbin-Watson test result reveals that there is presence of moderate positive serial correlation among the residuals, because of the d-value (1.4885) is approximately two. The model is not spurious since R-square is lesser than Durbin-Watson value.
4.3 Regression Estimates of Budget Deficit and Price Instability

The long-run estimates using the ordinary least square (OLS) method for the model is presented in Table 4.3. The table shows that the log values of budget deficits (BD) and money supply (MS) and bank rate (BR) have direct and insignificant relationship with price instability measured by inflation rate (PRST) of Nigeria. They do not conform with theoretical expectation except bank rate. In magnitude terms, this implies that for a 10% change in budget deficits (BD) and money supply (MS) and bank rate (BR) lead to an increase in price instability measured by inflation rate (PRST) of the Nigerian economy by 2.92%, 8.3% and 10.53% correspondingly. The table also reported that the log value of external reserve (EXRS) has negative and significant impact on price stability measured by inflation rate (PRST), and this does conform with theoretical expectation. It implies that a 1% change in external reserves (EXRS) decreases the inflation rate measuring price stability in Nigeria (PRST) by 7.54%.

Table 4.3: Result for Long-run Estimates

<table>
<thead>
<tr>
<th>Dependent Variable: PRST</th>
<th>Variable</th>
<th>Coefficient</th>
<th>Std. Error</th>
<th>t-Statistic</th>
<th>Prob.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>C</td>
<td>57.18760</td>
<td>16.28831</td>
<td>3.510960</td>
<td>0.0011</td>
</tr>
<tr>
<td></td>
<td>LOG(BD)</td>
<td>0.291738</td>
<td>0.324626</td>
<td>0.898691</td>
<td>0.3742</td>
</tr>
<tr>
<td></td>
<td>BR</td>
<td>0.830083</td>
<td>0.553224</td>
<td>1.500445</td>
<td>0.1414</td>
</tr>
<tr>
<td></td>
<td>LOG(MS)</td>
<td>1.053102</td>
<td>2.151869</td>
<td>0.489390</td>
<td>0.6272</td>
</tr>
<tr>
<td></td>
<td>LOG(EXRS)</td>
<td>-7.544361</td>
<td>3.315581</td>
<td>-2.275426</td>
<td>0.0283</td>
</tr>
<tr>
<td></td>
<td>R-squared</td>
<td>0.475357</td>
<td></td>
<td></td>
<td>8.304440</td>
</tr>
<tr>
<td></td>
<td>Adjusted R-squared</td>
<td>0.302893</td>
<td></td>
<td></td>
<td>8.505181</td>
</tr>
<tr>
<td></td>
<td>F-statistic</td>
<td>3.799906</td>
<td></td>
<td></td>
<td>8.379274</td>
</tr>
<tr>
<td></td>
<td>Prob(F-statistic)</td>
<td>0.010372</td>
<td></td>
<td></td>
<td>1.324900</td>
</tr>
</tbody>
</table>

*significant at 1%; ** significant at 5%; *** significant at 10%

Source: Author’s computation (2017).

The F-statistic result shows that all the incorporated price instability measured by inflation rate (PRST) and macroeconomic indicators are simultaneously significant at 5% critical level. Also, the adjusted R-squared result reveals that 30.3% of the total variation in price instability (PRST) is accounted by changes in bank rate proxy by minimum rediscount rate (BR), broad money supply (MS), external reserves (EXRS) and budget deficit (BD) during the reviewed periods. The Durbin-Watson test result reveals that there is presence of weak positive serial correlation among the residuals, because of the d-value (1.3249) is approximately two. The model is not spurious since R-square is lesser than Durbin-Watson value.

4.3 Economic Implication

The results shows that budget deficits improves the rate of per capita income and equality in the distribution of income but worsened the level of unemployment rate and instability of commodity prices. As shown in Table 4.1, the result indicates that budget deficit enhances the growth rate of per capita income in Nigeria and it does confirm with theoretical expectation but the magnitude is low. This suggests that to some extent budget deficits explains a substantial percentage of change in per capita income. This is an indication that government spending on social infrastructure improve the overall earnings in Nigeria and subsequently on per capita income growth. Furthermore, the result in Table 4.2 confirms a positive relationship between budget deficit and unemployment rate. It indicates that growth in Nigeria is not inclusive with respect to job creation. This is an indication that identifying the causes of unemployment rate would be effective in breaking the vicious cycle and reduce poverty in Nigeria. Likewise, the growth in output and per capita income is inflationary pushed as indicated in Table 4.3. Therefore, the results could come to a conclusion that all the models in Tables 4.1 to 4.3 are better representation of the relationship between budget deficits and economic performance in Nigeria. Thus, ensuring that government spending are spent into the right channels could effectively curtail unemployment and inflation rate and lead to increase in per capita income and possibly reduce inequality in Nigeria.

5. Conclusion

This study investigates the relationship between budget deficits and economic performance between 1970 and 2014. The model incorporates bank rate proxy by minimum rediscount rate, broad money supply, external reserves and budget deficit as the independent variables, while, economic performance is proxied by per capita income, unemployment rate and price stability as the regressands. The multiple ordinary least square is employed as the econometric method of estimation. The estimated model results revealed that both budget deficits and external reserves have positive and significant impact on capita income, whereas bank rate and money supply have indirect and insignificant on the same per capita income. Unfortunately, budget deficits, money supply and external reserves doesn’t creates growth that enhance employment rate in Nigeria, however, the result shows that bank rate reduces unemployment rate. Similarly, budget deficits, money supply and bank
rate cause price instability but the result of bank rate reports the opposite. Therefore, this study rejects the null hypotheses and concludes that budget deficit has significant effect on economic performance in Nigeria between the period of a decade after independence from colonial rule and 2014 fiscal year.

In order to eliminate the bottleneck associated with achievement of long-term income growth and economic performance in Nigeria through sustainable government spending, this research study recommends the following policy outlooks:

I. Government should formulate monitoring policy to check the channel of increase government spending to find out why the huge spending has not transmitted into a viable economic performance in terms of price stability and growth that guarantees employment creation.

II. Government should embark on provision of social amenities in the rural areas so as to reduce the urban–rural drift which have consequences of reducing the rate of unemployment.

III. A conductive environment for foreign direct investment should be created to ensure Nigeria’s full participation in the global business opportunities that would create job for the teeming population.

IV. There is need for the government to revitalize the agricultural sector, modern equipment in agricultural facilities is likely to entice the youths into that sector, since the sector have been left in the hands of the old men.

V. The government should embark on social security program that would help in elevating the unemployment condition of the people in Nigeria.

VI. There is equally an urgent need for more infrastructure facilities like expanding the telecommunication network to the rural part of the country, good roads and electrification projects which can enhance production and create employment.

References


