# IMPACT OF DEFICIT FINANCING ON ECONOMIC GROWTH IN NIGERIA

**Ogwueleka Chisom Frances.**
Department of Economics, Nnamdi Azikiwe University Awka, Anambra State Nigeria.

**Uju Regina Ezenekwe**
Department of Economics, Nnamdi Azikiwe University Awka, Anambra State Nigeria.

**Amaka G. Metu**
Department of Economics, Nnamdi Azikiwe University Awka, Anambra State Nigeria.

**Obisike Ndubueze Ezindu**
Department of Economics, Rhema University Aba, Abia State Nigeria.

**Uzoma, Kelechi Promise**
Department of Economics, Rhema University Aba, Abia State Nigeria.

**Abstract:** This study examined the impact of deficit financing (DF) on Nigeria's economic growth from 1984 to 2019. In order to capture the objectives of the study, secondary data were sourced and relevant methods of analysis were adopted which include unit root test and ARDL bound testing. The theoretical framework guiding the study anchors on Hirschman's theory of unbalanced growth (HTUG). The ARDL estimated tests revealed that DF has positive impact on each of the directly productive sectors (DPS) in Nigeria. Given the empirical results on average, the study conclude that Nigeria needs to apply more disaggregated measures in management of deficit financing and recommend that Nigerian government should prioritize fixing the economy with respect to deficit financing, sector and economic growth by investing more on viable sectors that has ability to keep abreast of others.

**Background to the Study**

Governments subscribe to deficit financing to support her budgeted deficit which enables her to finance her sectors, infrastructures, human capital indicators such as health and education etc.. Such deficit financing in turn is expected not only to improve economic growth but to generate employment through the sectors. In Nigeria's context, statistical evidence has shown that Nigeria has been consistent in financing her budget deficit through borrowing externally and domestically which in turn are expected to enhance or improve infrastructural facilities, sectoral performance and standard of living. Regardless, what is rather obtainable in the country are dilapidated infrastructure, dwindling sectorial performance, poor standard of living and high poverty rate and these factors have constituted numerous problems in the economy.

Given these problems, Nigerian government has at different times made several efforts designed to stimulate and sustain high growth profile. For example, Obioma (2016) opined that the overriding objective behind all development plans in Nigeria is the achievement of high and sustainable growth. In 2008, the then government of late Yar'Adua launched a rolling plan called Vision 20:2020. The plan set out what government would want to achieve between 2008 and 2020 to make Nigeria one of the 20 largest and most industrialized economies in the world. As noted by Ojo (2010), it is expected that the economy would grow consistently by over 9% per annum to

achieve this goal. Nigerian government has also embarked on diversification agenda as a critical vehicle for achieving high and sustainable growth. Okwuni (2019) submits that in 2017, government led by President Buhari came up with the Economic Recovery and Growth Plan (ERGP) which targets an annual growth rate of 4.5%.

In Nigeria's circumstance, statistical evidence has shown that the nation is not exempted from nations that are engaged in using deficit financing as a tool to promote economic growth. In the country, budget deficit has been rising since 1980. Nigeria witnessed budget deficit increase from ₦3.9billion in 1981 to ₦8.2billion in 1986 which further increased to ₦15.1billion in 1989. From 1990, the rising trend of budget deficit continued except in 1995 when the budget witnessed or registered a surplus of ₦1billion. In 1998, an overall deficit jumped to ₦133.3billion and in 2002, it increased up to ₦301.4billion. Starting from 2003, government budget deficit declined from ₦202.7 billion to ₦188.2 billion, ₦150.6 billion and ₦101.3 billion in 2003, 2004, 2005 and 2006 respectively. Another increase was witnessed from 2007 at ₦107billion to ₦1.5trillion in 2013 (CBN, 2014). The Nigerian deficit continued to increase from ₦1.6 trillion in 2015 to ₦2.7 trillion and 3.6 trillion in 2016 and 2017 respectively and then ₦3.6 trillion again in 2018 (CBN 2018). Meanwhile the value of deficits as a percentage of Gross Domestic Product (GDP) declined to -0.1 percent in 1999. The share of deficits in total GDP has been declining from -2.0 percent in 2003 to -1.1 percent in 2005 and -0.6 percent in 2006. Nigeria recorded budget deficit equal to 1.80 percent of the country's GDP in 2013 (Nigerian Budget Office, 2014). The Nigerian government budget averaged 2.10 percent of the GDP from 2006 up till 2013, reaching an all-high 4.60 percent of GDP in 2008 and also recorded low of -6.6 percent of GDP in 2009 (Nigerian Budget Office, 2014). In 2018, Nigerian budget had a deficit of ₦3.6trillion and debt servicing of ₦2.20trillion (budgiT, 2018).

According to CBN statistical bulletin (2018), the debt profile is also very high, the combined external loan stock (both FG and states) stood at ₦ 57208.06 billion as at December 2018. The Federal domestic debt stock was ₦97848.79 billion while the state domestic debt was ₦18641583.09 million from 2011 to 2018. Nwaeze (2017) opined that Nigeria's debt profile outstanding have caused rising inflation and exchange rate volatility which invariably robs the economy the productive capacity, employment generation, savings and capital formation which is what the debt was set out primarily to achieve. These problems have attracted policies over time in order to cushion the aforementioned effects. For instance, Nigeria adopted international monetary fund's (IMF) structural adjustment program (SAP) in 1986 with the objective of achieving non-inflationary growth and to stimulate domestic production of tradable goods and as well as to achieve a sustainable external debt service profile, improve domestic savings, investment and inflow of external resources. Another measure adopted by Nigerian government to checkmate debt related problems was to halt external loan except if such loans are given on concessionary grounds and these should be used only for export–increasing or import–decreasing activities that can pay their ways back (CBN, 1999).

Establishment of Debt Management Office (DMO) 4th October 2000 is not also exempted from policy measures to checkmate debt. DMO was saddled with the management of overall public debt management as they were responsible for debt management which was initially managed by the CBN. This was done in order to allow the federal government to determine the risk/cost trade-off on its debt structure. However these measures have not bailed out Nigeria from experiencing rising inflation, exchange rate volatility, low productive capacity, import dependent, unemployment, low savings etc.

The problems surrounding deficit financing and economic growth in Nigeria have attracted not only policy attention but empirical research also. That notwithstanding, the focus of the previous studies anchors on economic growth and deficit financing nexus which tilts more to Keynesian and balanced growth approach without recognition to Hirschman's deficit financing through unbalanced growth approach as a strategy to drive economic growth. The Hirschman's deficit financing approach (that is unbalanced growth approach) which reviewed literatures from Nigeria authors neglected has been utilized immensely by some foreign researchers who after their study highlighted the importance of the unbalanced growth approach as a strategy to drive economic growth.

Further following the Hirschman's deficit financing through unbalanced growth approach, one will observe that Hirschman compounded many sectors such agricultural sector, industrial sector, construction sector, transport and communication sector into what he called directly productive sectors. On this background, it is paramount to conduct a study on the impact of each of the directly productive sectors (DPS) in order to examine the impact of deficit financing on each of the aforesaid sectors in Nigeria's context as the aggregated version will not reflect or

show the impact of deficit financing on each of the sectors mentioned.

## Research Questions

The research questions for the study is given below

    i.    What is the impact of deficit financing on agricultural sector in Nigeria?
    ii.    What is the impact of deficit financing on industrial sector in Nigeria?
    iii.    What is the impact of deficit financing on construction sector in Nigeria?
    iv.    What is the impact of deficit financing on transport and communication sector in Nigeria?

## Review of Basic Theories

**Theory of Unbalanced Growth**: The theory of unbalanced growth was propounded by Albert .O. Hirschman in 1958 in his book "The Strategy of Economic Development". Unbalancing the economy with DPS means investment in Productive sectors which is done with a view to maximize profit. In those projects, investment is made first where high profits are expected. They include investment in real sectors of the economy or sectoral components of GDP such as agriculture, industry, construction, transportation and communication. Investment on the productive sectors has been a main focus of the government in order to stimulate economic growth and generate income and employment opportunities. In Hirschman's view, financial injections such as internally generated, borrowed funds and financial aids and in fact government expenditure should be invested in DPS of the economy which in turn will keep abreast the SOCs in the future, hence, balances the economic.

Hirschman's unbalanced growth model is stated as thus; $Q_{(t)} = \psi\lambda_{(t)}$
2.1

Where $Y_{(t)}$ = Output of DPS's at time t, $\psi$ = input factors (labour, capital and technology etc.) required in directly productive activities that will facilitate sectoral output, $\lambda_{(t)}$ = deficit financing at time t. The functional relationship between output of DPS's, input factors and deficit financing is stated thus; $Q_{(t)} = f(L, K, \lambda)$.
2.2

## Justification for adoption of the theory of unbalanced growth

Despite the criticisms leveled against Hirschman's theory of unbalanced growth, the theory unlike Keynes is more stream-lined in capturing the interaction between deficit financing and economic growth by recognizing the sectors as the intermediate. In practice, deficit financing as a financial injection is invested in the economy through the sectors, and for growth to emerge as required, nations invest more on DPS which has the capacity to maximize profit, stimulate economic growth, generate income and create employment opportunities and as well as keep abreast of SOCs. The study under review shall adopt the theory as the basic theory supporting the study. This is because Nigeria engages in deficit financing in order to enhance her fiscal expenditure, and government expenditures are invested in the economy through the sectors hence deficit financing is expected to impact on Nigeria's economy through the sectors.

## Empirical Literature Review

Ali, Mandara and Ibrahim (2018) examined the impact of deficit financing on economic growth in Nigeria for the period spanning from 1981 to 2016. Augmented Dickey Fuller was applied to ascertain the stationarity properties of the time series variables and ARDL technique was employed for the regression analysis. The variables employed include real gross domestic product, government deficit, exchange rate, interest rate, domestic private investment. The results showed that government deficit finance over the years had significantly impacted on the output growth of Nigeria. The above study neglected unbalanced growth approach as propounded by Hirschman, meaning that the study was not sector oriented rather focused on aggregate economic growth.

Using exploratory factor analysis, Okafor, Maduka, Ike, Uzoechina, Ohachosim (2017) focused on identifying latent factors influencing the inter-relationship among budget deficit finance, taxes, human capital and macroeconomic indicators. Study spanned across 1970-2015. The results indicate that: (1) Tax contributed significantly to budget deficit financing (2)Tax spending and disposable personal income were latent factors

influencing the effectiveness of deficit financing (3) Tax spending activated government revenue to contribute significantly to budget deficit reduction (4) Disposable personal income boosted GDP to cause reduction in budget deficit. It was concluded that, with the taxonomy of highly significant factor correlates of tax spending and disposable personal income, a viable deficit financing policy was devised with component tax, budgetary, pricing, credit and macroeconomic policies. The study neglected the impact of deficit financing on the sectors in the economy

Hussain and Haque (2017) analyzed the impact of fiscal deficit on economic growth in Bangladesh using Fully Modified Ordinary Least Squares (FM-OLS). The finding reveals that there is a positive and significant relationship between Fiscal deficit and growth rate of GDP(GDPGR) supporting the Keynesian theory. The study ignored the fact that fiscal deficit must go through the sectors before it impacts on the aggregate growth of the economy.

## RESEARCH METHODS

### Theoretical Framework

The theoretical framework guiding this study anchors on the theory of unbalanced growth by Hirschman. Hirschman proposed a positive relationship between deficit financing and growth. However he opined that rather than simultaneous development of all the sectors as proposed by Nurkesian, Hirschman proposed economic growth through financial injection in some sectors which he called directly productive sectors (DPS). His contention pinned on deliberate unbalancing of the economy according to a pre-designed strategy, is the best way to achieve economic growth in an underdeveloped country. According to Hirschman, investing all the financial injections in strategically selected industries or sectors of the economy will lead to new investment opportunities and so pave the way for further economic development.  Unbalancing the economy with DPS is one of the recommendations of Hirschman which stands for investment in Productive sectors in view to maximize profit, generate income and create employment opportunities and keep abreast the SOCs in the future hence stimulate and balances the economic. In fact in Hirschman's view financial injections like deficit financing should be invested in DPS of the economy in view to balance the economy in the future.  He supported his theory with a simple model which is stated as:

$$Q_{(t)} = \psi\lambda_{(t)} \qquad\qquad 3.1$$

Where $Y_{(t)}$ = Output of DPS's at time t, $\psi$ = input factors (labour, capital and technology etc.) required in directly productive activities that will facilitate sectoral output, $\lambda_{(t)}$ = government expenditure at time t. The functional relationship between output of DPS's, input factors and government expenditure is stated thus;

$$Q_{(t)} = f(L, K, \lambda) \qquad\qquad 3.2$$

Hirschman further decomposed government expenditure into financial injection such as internally generated, borrowed funds and financial aids but fail to show the mathematical expression. However, equation 3.2 was modified for the purpose of the present study.  The model for objective one is specified as thus;

$$DPS's = (L + K + G) \qquad\qquad 3.3$$

Where DPS's = Output of directly productive sector, L = labour, K = capital G = government expenditure. Since Hirschman further decomposed government expenditure into financial injection such as internally generated, deficit financing and financial aids.  Equation 3.5 will be modified to read;

$$DPS's = (L + K + IG + DF + FA) \qquad\qquad 3.4$$

Where DPS's, L and K are as in equation 3.4, IG = internally generated; DF = deficit financing; FA = financial aids.  L and K will be represented with LAB and GCF henceforth meaning labour and gross fixed capital formation. Since the study under review is not focusing on IG and FA, equation 3.4 will be reduced to;

$$DPS's = (LAB + GCF + DF) \qquad\qquad 3.5$$

Given that deficit financing is decomposed into external and internal, and the internal is further decomposed into bank and non-bank deficit financing, equation 3.5 will be modified further to;

DPS's = (LAB + GCF + EXDF + DBDF + DNBDF)                                      3.6

Where DPS's = aggregate performance of agricultural sector, industrial sector, construction sector, transport and communication sector, EXDF = external deficit financing, DBDF = domestic bank deficit financing, DNBDF = domestic non-bank deficit financing.

Further since the study under review is interested in examining the disaggregated version of the unbalanced growth approach, equation 3.6 will be further decomposed to capture the DPS's individually. Hence model for the objectives of the study is stated as;

AGR     = (LAB + GCF + EXDF + DBDF + DNBDF)                                      3.7
IND      = (LAB + GCF + EXDF + DBDF + DNBDF)                                      3.8
CONS    = (LAB + GCF + EXDF + DBDF + DNBDF)                                      3.9
TRANS = (LAB + GCF + EXDF + DBDF + DNBDF)                                      3.10
COMM = (LAB + GCF + EXDF + DBDF + DNBDF)                                      3.11

Where LAB, GCF, EXDF, DBDF, DNBDF are as in 3.6, while AGR = Agriculture; IND = Industry; CONS = Construction; TRANS =Transport; COMM = Communication

## Model Specification

The model specification herein focused on econometrics form of all the models specified in order to capture the objectives of the study.

The econometric form of equations 3.7 to 3.11 (for objectives one to five) is presented as;

$\psi = \beta_o + \beta_1 LAB + \beta_2 GCF + \beta_3 EXDF + \beta_4 DBDF + \beta_5 DNBDF + z_i$                                      3.12
$\beta_1 ; \beta_2 ; \beta_3 ; \beta_4$ and $\beta_5 > 0$
z = stochastic variable

Where $\psi$ represent vector of all dependent variables such as AGR = Agriculture; IND = Industry; CONS = Construction; TRANS =Transport; COMM = Communication

## Estimation Techniques and Procedures.

The models of this study will be estimated using the Ordinary Least Squares (OLS) technique. However, the direct use of OLS without accounting for the descriptive and time series properties of the relevant data may result to spurious regression. Hence this calls for the pre-test analyses such as the descriptive analysis, unit root test, co-integration test and possible estimation of error correction models.

## Unit Root Test

Unit root test is a pre-test which is used to examine whether a time series data is stationary or not, in order to avoid running a spurious regression. Unit root test ensures validity of the test statistics such as t-test statistic, F-test statistic and coefficient of determination ($R^2$). The study under review adopted Augmented Dickey-Fuller (ADF) Unit root test since ADF is a parametric unit root pre-test and highly applicable on large sample size (that is when number of observation is greater than thirty N > 30). The ADF equation is specified below as thus;

$\Delta Yt = \beta_0 + \beta_{2t} + \psi Y_{t-1} + \alpha_1 \Delta Y_{t-1} + \varepsilon t$                                      3.17

Unit root test hypothesis and decision rule are stated thus;
$H_0$: the variables has unit root (not stationary)
$H_1$: the variables has no unit root (stationary)

Decision rule: reject H0 if ADF is greater than critical value in absolute terms at chosen level of significance.

## Co-integration Test

After establishing the existence of stationarity and their order of integration identified, next is to determine if the dependent and independent variables are co-integrated for robust long-run analysis and this can only be achieved through co-integration test. The nature of co-integration test to be applied in a study is subject to stationarity test outcomes. For instance, if the variables of study interest are integrated at purely order zero that is 1(0) or purely order one that is 1(1), under such stationarity outcomes single co-integration tests such as Johansen or Engle-Granger respectively are appropriate for long-run analysis. Contrarily, if the variables are fractionally integrated at 1(0) and 1(I) ARDL bound testing become more appropriate. This paper emphasized more on Engle-Granger and ARDL bound testing.

## Augmented Engle-Granger (AEG) co-integration test (long-run test)

Single co-integration tests precisely Engle-Granger co-integration test is appropriate if the variables of study interest are integrated at purely 1(1). The Engle-Granger co-integration test equation is stated as:

$$\Delta Y_t = \beta_0 + \beta_1 \Delta xt \ldots\ldots + \beta p\ \Delta xtp + \varepsilon t \qquad\qquad 3.18$$

If two or more variables are co-integration, that is, there is a long-run or equilibrium relationship between the variables. Of course, in short-run there may be disequilibrium. Therefore, error term in short-run equation is treated as equilibrium error. Correction of such error is the major import of Error Correction Mechanism or Model (ECM), we can use this error term to tie the short-run behavior of the dependent variable (Gujarati. 2004). AEG co-integration test hypothesis and decision rule

$H_0$: the variables are not co-integration
$H_1$: the variables are co-integration

Decision rule: reject H0 if residual stationarity test is greater than its level critical value in absolute terms at chosen level of significance.

## Augmented Engle-Granger Error Correction Model (short-run test)

This test is carried out to correct maybe equilibrium error (disequilibrium) in short-run, such that the error term in short-run equation can be tie to the short-run behavior of the dependent variable. The short-run equation is stated as:

$$\Delta Yt = \beta_0 + \beta_1 \Delta xt + \ldots\ldots + \beta p\ \Delta xtp + \beta_2 ECM(-1) + \varepsilon t \qquad\qquad 3.19$$

$\beta_2$ decides how quickly equilibrium is restored in short-run and $\beta_2$ is expected to be negative.
ECM hypothesis and decision rule are thus stated;
$H_0$: there is no short-run relationship between the variables.
$H_1$: there is short-run relationship between the variables.
Decision rule: reject $H_0$ if the coefficient of ECM(-1) is negative at chosen level of significance.

## Autoregressive Distributed Lag (ARDL) bounds testing co-integration.

Unlike single co-integration tests which are applicable if time series are serially integrated that is purely 1(0) and 1(I), ARDL bounds testing co-integration is applicable if the variables are fractionally integrated at 1(0) and 1(I). Long-run and short-run unrestricted ARDL bounds testing approach developed in 2001 by Pesaran, shin and Smith (Pesaran, shin & Smith, 2001) is specified below as;

$$\Delta lnYt = \beta_0 + \beta_1 lnZ_{t-1} + \Delta lnY_{t-1} + \Delta lnZ_{t-1} + \mu_t \qquad\qquad 3.20$$

Where µt is the white noise or error term, the first part of the right hand side of equation 3.14 with parameter $\beta_1$ represents the long-run parameter of the models and the second part with parameter $\alpha_2$ represents the short-run of the models.

ARDL bounds testing hypotheses is stated as:
$H_0$: the variables are not co-integrated
$H_1$: the variables are co-integrated

Decision rule:

Reject $H_0$ if the computed F-statistic falls above the upper critical bounds at chosen level of significance and accept $H_0$ if otherwise stated.

Do not Reject $H_0$ if the computed F-statistic falls below the lower critical bounds at chosen level of significance. Take no decision about $H_0$ if the computed F-statistic falls inside the lower and upper critical bounds at chosen level of significance.

The short run relationship among the variables is specified as;

$$\Delta \ln Y_t = \Delta \ln Y_{t-1} + \Delta \ln Z_{t-1} + \lambda ecm_{t-1} + \mu_t \qquad\qquad 3.21$$

Where ecmt-1 is the short-run dynamic error correction factor, $\lambda$ is the coefficient of ecmt-1 that measures the speed of adjustment in the short-run into the long-run and µt is the white noise error term. If the coefficient of ecmt-1is negative we then conclude that there exist short-run relationship between the independent variables and dependent variable. As a result, the study analysis will rely on short run results because of the advantages short-run results have over long-run results. Short-run results have the following advantages over long-run results (a) short run results give multiplier effect of the independent variables on the dependent variable (b) short-run is a convenient model that corrects disequilibrium in short-run into long-run (c) Short-run results resolves the problem of spurious regression by taking into account the lag of error correction model (ECM) which eliminates trends from the model (d) ECM fits into both general and specific approach to econometric model (e) the error term in Short-run result is a stationary variable etc (Gujarati. 2004).

## RESULT PRESENTATION, ANALYSIS AND DISCUSSION  OF RESULTS

**Table 4.1 Augmented Dickey-Fuller (ADF) unit root test.**

| Dependent variables | | | | |
|---|---|---|---|---|
| VARIABLES | ADF test statistic | Critical 5% | Order | Remarks |
| AGR | -5.659614 | -3.536601 | I(I) | Reject $H_0$ |
| IND | -4.118577 | -3.536601 | I(I) | Reject $H_0$ |
| CONS | -3.759464 | -3.536601 | I(I) | Reject $H_0$ |
| TRANS | -5.423879 | -3.536601 | I(I) | Reject $H_0$ |
| COMM | -3.871218 | -3.580623 | I(I) | Reject $H_0$ |
| Independent variables | | | | |
| VARIABLES | ADF test statistic | Critical 5% | Order | Remarks |
| GFCF | -4.404536 | -3.533083 | I(0) | Reject $H_0$ |
| LAB | -5.635758 | -3.536601 | I(I) | Reject $H_0$ |
| EXDF | -3.963480 | -3.536601 | I(I) | Reject $H_0$ |
| DBDF | -3.742318 | -3.574244 | I(I) | Reject $H_0$ |
| DNBDF | -5.478566 | -3.568379 | I(I) | Reject $H_0$ |
| AGDF | -4.863058 | -3.548490 | I(I) | Reject $H_0$ |

**Source**: Authors Computation 2022 with E-views 9.

Given the unit root result in tables 4.1, we will reject H₀ which states that the variables have unit root (not stationary) and accept H₁ which states that the variables have no unit root (stationary). This is because the ADF statistic values are greater than critical value in absolute terms at 5% level of significance, with all the variables been integrated at order one that is I(1) except GFCF that is integrated at order zero that is I(0). Since the variables are fractionally integrated, this study therefore adopted ARDL bound testing co-integration for estimation of the result.

**Data/Result Analysis**

**Table 4.5: ARDL Estimated result**

| variables | GCF Coefficient model one | LAB Coefficient model two | EXDF Coefficient model three | DBDF Coefficient model four | DNBDF Coefficient model five |
|-----------|---------------------------|---------------------------|------------------------------|-----------------------------|-------------------------------|
| AGR | 6.64341 | 2.07011 | 0.03117 | 1.19587 | 0.33734 |
| IND | 3.00031 | 2.00018 | 0.05926 | 0.67633 | 0.85951 |
| CONS | 3.00891 | 4.05431 | 0.02244 | 0.13401 | 0.2529 |
| TRANS | 6.58781 | 5.00341 | 1.01168 | 2.04299 | 2.0481 |
| COMM | 1.00018 | 4.69981 | 0.02211 | 2.32041 | 0.42448 |

**Source**: Authors Compilation 2022 with E-views 9.

From economic point of view, the result revealed that a unit increase in GCF, LAB, EXDF, DBDF and DNBDF increases AGR by 6.64, 2.07, 0.03, 1.19 and 0.33 units respectively. Economically from model two the result in table 4.5 shows that a unit increase in GCF, LAB, EXDF, DBDF and DNBDF increases IND by 3.0, 2.0, 0.05, 0.67 and 0.85 units respectively. Further in model three the result revealed that a unit increase in GCF, LAB, EXDF, DBDF, and DNBDF increases CONS by 3.0, 4.05, 0.02, 0.13 and 0.25 units respectively.

Furthermore in model four, from economic point of view, the result revealed that a unit increase in GCF, LAB, EXDF, DBDF and DNBDF increases TRANS by 6.58, 5.0, 0.02, 2.04 and 2.04 units respectively. A unit increase in GCF, LAB, EXDF, DBDF and DNBDF increases COMM by 1.0, 4.7, 0.02, 2.32 and 0.42 units respectively as shown in table 4.5 with respect to GCF, LAB, EXDF, DBDF, DNBDF and COMM in model five.

**Discussion of Findings.**

The findings of this study revealed that deficit financing have the capacity to promote economic growth if only the economy is intentionally unbalanced by investing in the sectors one at a time. For instance, the deficit financing variables adopted in the study have positive impact on agriculture, industry, construction, transport and communication as shown in tables 4.5, 4.6, 4.7, 4.8 and 4.9. Our result agrees with Anyalechi,Onwumere and Boloupremo (2017) who found that external and internal deficit financing have not contributed significantly to economic growth in Nigeria. Again the outcome of this study partly agrees with Nwaeke And Korgbeelo (2016) who found that external deficit financing have negatively but insignificantly related to economic growth of Nigeria.

The result in this study shows that deficit financing can be a boost to DPS's in Nigeria. In this approach rather than investing in all DPS's at a time, the country would rather invest first in one of the most viable and profitable DPS so that that one will keep abreast of others. Regardless of the difference in study approach, this result aligns with Yotopoulos and Nugent (1973; 1976) who emphasized on the importance of unbalance growth approach to economic growth having used unbalance growth approach to study United States of America, eight (8) European countries, Japan and eight (8) regions and thirty one (31) provinces in China. It also supports the observations of Imbs and Wacziarg (2003), Cohen (2007) and Carsten (2011) having studied China, France, South Africa and Asian region respectively using unbalance growth approach to economic growth.

**Policy Implications of Findings**

From objectives one to five of this study, the results show that deficit financing can be a boost to DPS's in Nigeria. In this approach, rather than investing in all DPS's at a time, the country would rather invest first in one

of the most viable and profitable DPS so that such sector will keep abreast of others. See Tables 4.5, 4.6, 4.7, 4.8 and 4.9. Here we will observe that the entire deficit financing variable adopted in this study had positive impact on each of the DPS's in Nigeria. However by magnitude the result suggests that transportation is the most viable followed by industry then others. By implication, this result implies that focus should be channeled to unbalanced growth approach as suggested by Hirschman rather than aggregate as suggested by Nurkes.

**Conclusion and Recommendations**

This study undertakes the impact of deficit financing on Nigeria's economic growth with specific objectives to determine the impact of deficit financing on each DPS's in Nigeria from 1984 to 2019. Enshrined in the body of the work include relevant growth and economics theories, related empirical literatures were reviewed to further give a more robust outlook to the research work from which research gaps were drawn. Methods of analysis relevant to capture the study objectives were adopted. Empirical findings revealed that unbalanced growth and deficit financing approach couple with moderate borrowing have more potential to promote Nigerian economic growth if properly managed. Following the results obtained from ARDL bound testing the researcher then concludes that Nigeria needs to apply more disaggregated measures in managing of deficit financing, and recommend that Nigerian Government should prioritize fixing the economy with respect to deficit financing, sector and economic nexus by adopting more disaggregated measures that will centre on viable sectors that has ability to keep abreast of other.

**REFERENCES**

1. Ali, M.B., Mandara, B., & Ibrahim, M.A. (2018). Impact of deficit financing on economic growth in Nigeria. *Global Journal of Management and Business Research, 18*(3), 29 – 36.
2. Anyalechi, K. C., Onwumere, U. J., & Boloupremo T. (2017). Fiscal Policy and the Nigerian Economy. *International Journal of Business and Management, 12(4)186.*
3. budgiT (2018). *The Economy: Towards a new type of economics*. Port Harcourt,
4. Nigeria: Belport Publishers.
5. Carsten, A. Holz, A (2011). unbalanced growth hypothesis and the role of the state. Journal of Development Economics *96 (2)* 220–238.
6. Central Bank of Nigeria (1999) .The Conduct of Fiscal Policy. https://www.cbn.gov.ng/monetarypolicy/Fiscal/1999.asp
7. Central Bank of Nigeria (2014) .The Conduct of Fiscal Policy. https://www.cbn.gov.ng/monetarypolicy/Fiscal/2014.asp
8. Central Bank of Nigeria (2018) .The Conduct of Fiscal Policy. https://www.cbn.gov.ng/monetarypolicy/Fiscal/2018.asp
9. Cohen (2007). Unbalanced growth hypothesis and the role of the state. Journal of Development Economics *96 (2)* 220–238.
10. Gujarati, D.N. (Ed.). (2004). *Basic econometrics* (4th ed). New Delhi, INDIA: Tata McGraw Hill.
11. Gujarati, D. N., Porter, D.C., & Gunasekar,S. (2012) *Basic Econometrics*, (5th ed). New Delhi,
12. INDIA: Tata McGraw Hill.Hussain and Haque (2017). How federal government's debt affect the level of economic growth. *International Journal of Trade, Economics and Finance, 3*( 4) , 323-326.
13. Imbs, Jean, Wacziarg, Romain, (2003). Stages of Diversification: American Economic Review 93 (1), 63–86.
14. Nigerian Budget Office (2014). The Conduct of Fiscal Policy. https://www.cbn.gov.ng/monetarypolicy/Fiscal/2014.asp
15. Nwaeke G. C. & Korgbeelo,C. (2016). Budget deficit financing and the Nigeria economy.
16. *European Journal of Business and Management, 8* (22 ) , 206 -214.
17. Nwaeze, N.C. (2017). Fiscal deficit, financing options and macroeconomic stability in Nigeria: A disaggregated approach. *Greener journal of economics and accountancy, 6*(2), 043-064.
18. Obioma (2016). Relationship between external debt management policies and economic growth in nigeria (1970-2006). *International Journal of Financial Research, 1*( 1), 2 – 13.

19. Ojo, A.T. (2010). *The Nigerian maladapted financial system*. Ota, Nigeria. The CIBN press Limited.
20. Okafor, Maduka, Ike, Uzoechina, Ohachosim (2017). How years of fiscal deficits emasculated the Nigerian economy, *Economic Reflections, 3*(5) 1-7.
21. Okwuni (2019). Implication Of Deficit Financing On Economic Growth In Nigeria. *European Journal Of Accounting, Auditing and Finance Research, 2*(10), 122-135.
22. Pesaran, M. H., Shin Y., & Smith R.J. (2001). Bound testing approaches to the analysis of level
23. relationship: *Journal of applied econometrics,16(3, 289-326*.
24. Yotopoulos, Pan A., Nugent, Jeffrey B., 1973. A Balanced-Growth Version of the Linkage Hypothesis: A Test. The Quarterly Journal of Economics 87 (2), 157–171.
25. Yotopoulos, Pan A., Nugent, Jeffrey B., 1976. In Defense of a Test of the Linkage Hypothesis. The Quarterly Journal of Economics 90 (2), 334–343.