DEFICIT FINANCING AND ECONOMIC DEVELOPMENT:
THE NIGERIA’S EXPERIENCE

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Abstract
There has been increasing concern among scholars on the effect of budget deficit on economic growth in Nigeria. Some scholars argue that it portends positive effect, some other group insist that it has negative effect while others classify the effect as neutral. In the face of these arguments and within the context of persistent deficit financing in Nigeria, we set out to examine the effectiveness of deficit financing as a veritable instrument to enhance economic development in Nigeria. While human development index was used to measure economic development, budget deficit and government expenditure were used to proxy deficit financing. Data sourced from Central Bank of Nigeria Statistical Bulletin for the period 1986 to 2019. Employing the Autoregressive Distributive Lag and Granger Causality Test techniques, the results revealed that budget deficit and government expenditure exert positive but marginal influence on economic development in Nigeria. Also, the study shows a unidirectional causality, indicating that deficit financing through government expenditure promotes economic development in Nigeria. Although, the study supports the Keynesian theory with a positive influence, deficit financing value in Nigeria is not substantive enough to drive the needed century-development desired in the economy. Therefore, the study recommended establishment of an institutional framework to monitor the application of budgeted funds. Also, oversight function of state and national assemblies be further be strengthened. Finally, all borrowed fund should be channeled into productive projects capable of enhancing the people’s economic well-being as well as servicing the debt. These measures will enhance value for money spent.

Keywords: Budget Deficit, Government Expenditure, Human Development Index, Economic Development, Nigeria.
1. Introduction

Deficit financing or budget deficit refers to financial arrangement unveiling excess in expenditure value over revenue amount at a period in time. Although, it is a common practice at both micro and macro level, however, when it involves the government spending, it portrays a macroeconomic effect on the economy. Deficit being one of the means of financing became a system in Nigeria as an aftermath of the civil war, and compounded by price instability in the oil market as well other challenges in the economic and financial system (Okah et al., 2019).

The government uses budget deficit as an alternative in attempting to address the challenges of infrastructural inadequacy, unemployment as well as tackling inflation. It supports the Keynesian analysis that the society will continue in a state of depression, underdevelopment and quandary where the government fails to intervene by making public expenditure needed to stimulate demand as well as promoting domestic production, thereby, resulting economic recovery and vibrancy. However, Isah (2012) posits that persistent budget deficit does more harm than good through crowding out of private investment. Also, Bazza, Binta and Alhaji (2018) align with this position by attributing economic problems such as inflation rise, import expansion, to persistent budget deficit practice. But Aero and Ogundipe (2018) argue that maintaining budget deficit level at 5% is not detrimental to economic growth and development in Nigeria.

Statement of Problem

Government expenditure from deficit finance is expected to promote rapid and sustainable economic activities as well as enhance the citizens’ welfare, especially in Nigeria where budget deficit experience has been recorded over thirty-five years from 1980 (Nwanna & Nkiruka, 2019; Ubi & Inyang, 2018). However, the reverse is the case, with empirical evidence of being rated as world poverty headquarters, with low standard of living; balance of payment deficit, unprofitable reliance on foreign nations, hyperinflation rate, accelerated unemployment rate, and deterioration in health and educational infrastructure.

This quandary situation creates great concern for researchers. What really has gone wrong? Is it fiscal policy formulation or implementation? While some scholars support the Keynesian theory of positive nexus between budget deficit and economic growth (Bazza, Binta & Alhaji, 2018; Momodu & Monogbe, 2017), others believed in the neoclassical theory of adverse relationship among them (Nkrumah, Owusu & Orkoh, 2016; Osuka & Achinibu, 2014). Or should we assume the relationship among the duo to the postulations of Ricardian economists of no causal relationship among budget deficit and economic growth? These disagreements among scholars in addition to viewing budget deficit in relation to economic development in Nigeria necessitated this study.

Therefore, the empirical relationship between budget deficit and human development index, as well as the relationship between government expenditure and human development index shall be the core objectives of this study. It is believed that outcome of this study will help to define what theoretical relationship that prevails among budget deficit and economic development in Nigeria. Also, fiscal policy authorities will be better informed of appropriate policy measure to administer for a favourable and sustainable economic development.
2. Conceptual Issues

2.1 Budget Deficit

The Chartered Institute of Management Accountants (CIMA) defines budget as a financial quantitative statement, prepared and approved prior to a defined period of time, of a policy to be pursued during that period for the purpose of attaining a given objective. They may include income, expenditure and the employment of Capital. For satisfactory control, a budget requires regular review and modification to reflect rapidly changing conditions in the business environment (Olatunde, 2003).

Magehema (2015) asserts that a country experiences budget deficit when the government spending surpasses its revenue. This negative situation may arise deliberately or spontaneously. It is deliberate, when certain public developmental projects are planned for, with their attainments through borrowings. However, in spontaneous budget deficit, sudden fall in revenue due to price fluctuations, hyperinflation or cases of emergency such as natural disaster, epidemic disease, insurgeries necessitate for government excessive spending over its revenue level. Onwioduokit in Abiola (2015) pointed out basic criteria that arouse budget deficit to include: situation of increase in public spending at an unchanged revenue target, or failure in tax revenue while public spending remains constant, or situation of tax revenue fall, yet witnessing increase in public spending.

When greater portion of a country’s budget is spent on less or unproductive projects, this makes debt servicing burdensome as invested project cannot yield corresponding positive output. A habitual experience of this problem inhibits full payment of due interest on loan (Osinubi & Olaleru, 2006).

2.2 Trend of Deficit Financing in Nigeria (2010 to 2019)

A huge deficit has been associated with the government of Nigeria over the years, thereby creating deleterious effect on monetary policy as well as increasing money growth and inflation (Egwaikhide, 2005; Nwanna & Nkiruka, 2019).

![Figure 1: Trend of Deficit Financing alongside Government Expenditure in Nigeria, 2010 - 2019.](image-url)
As revealed in figure 1 above, there is a consistent accelerated rise in the trend of deficit financing (DF) and government expenditure (GE) from 2010 to 2019. Both deficit financing and government expenditure movement assume a parallel trend. While DF was about N1 billion, GE stood at N4 billion as at 2010. In 2013, the values increased to N1.15 billion and N5.19 billion for DF and GE indicating growth of 0.04% and 0.24% respectively. Although, the trend recorded a decline of 0.28% and 0.12% in deficit financing and government expenditure, respectively in 2014, from 2014 to 2019, the trend skyrocketed from N0.835 billion to N4913 billion for DF, and N4587 billion to N9714 for government expenditure, in a percentage change of 4.88% and 1.12% for DF and GE. Although the increase in population with its attendant needs requires greater government expenditure, the change in deficit financing as shown from 2014 to 2019 grew four times above the change in government expenditure. This reveals a wide gap suggesting embezzlement and diversion of borrowed fund unlike the trend in previous administration (2010 - 2015).

2.3 Budget Deficit and Economic Development Nexus

Magehema (2015) defines economic development as the sustained, concerted actions of policy makers and communities that promotes the standard of living and economic health of a specific area. It is also referred to as the qualitative and quantitative changes in the economy. In analyzing the prevailing relationship between budget deficit and economic development, this could best be understood in two ways:

a) Proportional budget deficit and economic development relationship: This is a situation of commensurate increase in economic development in terms of increase in output level of goods and services, presence of job opportunities, lower cost of living, balance of payment surplus, high standard of living as a result of productive spending of government borrowed fund. But this can be achieved only through government with defined concerted economic blue print. We this mostly with the developed nations than emerging nations.

b) Deteriorating budget deficit and economic development relationship: This expresses an inverse relationship between budget deficit and economic development. Common causes revolves round fund mismanagement, embezzlement of borrowed fund, presence of capital flight, investment in unproductive project or “white elephant project” with low or no economic reward. This experience is common with developing nations that are highly corrupt. Amidst abundant resources, they make little or no impact.

Kustepeli et al (2004) posit that, excessive domestic borrowing by the government which crowds out private sector investment and push up interest rates may result money printing or seignorage, thus resulting in inflation, higher tax, which capable of increasing real interest rates in the financial markets; increasing risk premium on interest rate, as well as inducing high tax burden in the future, thereby, discouraging aggregate private investment.

Ferraro (2008) opines that, ceteris paribus, sustained deficits tend to reduce national saving. From standard national accounting identities, the reduction in national saving must be matched by a reduction in domestic investment and/or a reduction in net foreign investment. In either case, the capital owned by people declines, which in turn reduces
future national income and future living standards (relative to their level in the absence of the deficit).

Ahmad (2013) indicates that there are different views about the relationship between budget deficit and economic development. Keynes (1936) says there is positive relationship between budget deficit and economic development. On the other hand neoclassical are in a view that there is an inverse relationship between budget deficit and economic development while Baro (1988) says that there is neutral relationship between budget deficit and economic development.

2.4 Theoretical Underpinning

i. Keynesian Theory: The Keynesian theory and its supporters advocate a positive relationship prevails between deficit financing and economic growth. They contend that deficit financing fosters the production of goods and services, intensifies investment, upsurges income level, generates rapid aggregate demand, thereby, resulting to crowd in effect of private investment. This financial gap filling by the government through budget deficit, as it expands productive capacity with greater private investment at minimal interest rate, unemployment level will be reduced. It also increases disposable income, thereby enhancing both consumption expenditure and encourages aggregate savings in the economy. This, in effect means private sector is crowded in instead of crowding out (Okah et al., 2019).

ii. The Neoclassical Theory: Bhatia (2010) argued that neoclassical group of economists concludes that an adverse relationship exist between budget deficits and macroeconomic aggregates. They maintained that budget deficits lead to higher interest rates which discourages the issue of private bonds, private investment, private spending and increases inflation level and creates a similar increase in current account deficits and slows the growth rate of the economy through resources crowding-out (Okah et al., 2019).

This school of thought considers individuals planning their consumption over their entire cycle by shifting taxes to the future generations. Budget deficits increase current consumption by assuring full employment of resources. The neoclassicals maintain that increased consumption means a decrease in savings. Interest rate must rise as to bring about equilibrium in the capital market. Higher interest rates in turn bring about a decrease in private investment, domestic production and an increase in the aggregate price level (Okah et al., 2019).

Okah et al (2019) also distinguished “financial crowding out” from “resource crowding out”. The first occurs when the government enters into the same financial market to borrow funds that ordinarily would have available for the private sector, whereas the later indicates a situation of where the government competes with the private sector in purchasing certain resources such as: raw materials, skilled labour, raw materials, among others.

iii. Ricardian Equivalence Hypothesis: This hypothesis advocated by David Ricardo opines that budget deficit neither enhances nor retards aggregate production of goods and services in the economy. The theory indicates that raising fund through taxation or public borrowing are two major options available for government to finance their spending. And if funds are borrowed, government must eventually repay this fund by raising taxes above
what they would otherwise have been in the future; the choice therefore is between “tax now” and “tax later.”

David Ricardo argued that although taxpayers would have more money or fund now, they would realize that they would pay higher tax in future and save the extra money in order to pay the future tax. The extra savings by consumers would offset the extra spending by government; therefore overall demand would remain unchanged.

Barro (1990) in support of the Ricardian equivalence, applied sophisticated explanations on this idea by employing the theory of rational expectation. He contended that a rise in budget deficits as a result of an increase in government spending must be paid for either now or later, with total present value of receipts fixed by the total present value of spending which suggests that a cut in today’s taxes must be matched by an increase in future taxes leaving real interest rates and thus private investment and the current account balance, exchange rate and domestic production unchanged. Therefore budget deficits do not crowd-in nor crowd out macroeconomic outcome, that is no positive or negative relationship exists (Adeleke & Abdulsalam, 2016).

iv. Lerner’s Hypothesis: Lerner hypothesis crusades that every government external borrowing has effect on the upcoming generations depending on the usability of the borrowed fund. He indicates burdened inter-generational effect when borrowed fund are spent on recurrent items and the future generations to pay heavy tax for what they do not consume. However, there is a beneficial inter-generational effect if the borrowed loan is used to finance capital investment where the generated returns from such investment is greater than the borrowed fund, then no debt burden will be transfer to the future generation (Momodu. & Monogbe, 2017).

The theoretical foundation of this study on budget deficits and economic development nexus is premised on the Keynesian theory, which indicates that during economic recession and underdevelopment, expansionary fiscal policy should be embraced to upsurge the aggregate demand in the economy thus boosting economic activities, thereby enhancing social wellbeing.

2.5 Empirical Review

Employing the Multiple Linear Regression, Magehema (2015) established a positive effect of budget deficit on the economic development of East African Countries (Tanzania, Kenya, Uganda, Rwanda and Burundi) for the period 2004 to 2013. However, the study concluded that the effect of budget deficit on economic development depends on how the funds financing the deficit are used, if it was used for development purposes then it would have a positive effect but if it is for meeting the recurrent expenditures then there would be a negative relationship between the two. The study recommended that East African countries should broaden and manage efficiently the tax base in order to finance their expenditure adequately and help increase the multiplier that further generate output hence economic growth, alongside creating conducive environment for more opportunities, more revenue sources to increase income and reduce dependence on developed countries.

Dang (2016) conducted a study on the relationship between budget deficits and human development in Nigeria for the period 1980 to 2013. The researcher found a unidirectional long-run causality existing between budget deficits and human development in Nigeria, with causality running from budget deficits to Human Development Index,
using the granger causality test, aligning with the Keynesian view. The study recommended that in budget planning, the long-run effect of budget deficit should be taken into consideration, because that is more permanent and enhances human development.

Also, budget deficit was found to promote economic performance of Nigeria (1981-2015) with granger causality influence in the study of Momodu and Monogbe (2017). However, its Ordinary Least Square result revealed a significant but negative relationship with economic performance, suggesting the presence of moral hazard, mismanagement of fund and financial indiscipline which prevent the country from enjoying the sustainable level of expected growth overtime. The study recommended that policy makers should ensure effective utilisation of borrowed fund and maintain a sporadic evaluation and supervision of such projects in which borrowed fund are channeled into in order to achieve profitable returns which will help in servicing of such debt and also stimulate economic performance.

Moreover, Okah, et al (2019) examine the effect of deficit financing on economic growth of Nigeria from 1987 to 2017. Using Vector Autoregressive estimates, the finding revealed that deficit financing has positive but insignificant effect on Nigerian economic growth. Therefore, to achieve efficient influence of budget deficit, the study recommended that government should strive to diversify its revenue base and also demonstrate a high level of transparency in both its monetary and fiscal operations among others.

From the aforementioned related literature reviewed, it is shown that budget deficit showcases positive relationship with either economic growth or economic development in Nigeria (as in the cases of: Dang, 2016; Momodu. & Monogbe, 2017; Okah, et al., 2019) and other countries (as in Magehema, 2015). As observed, apart from the employed sample that ended in 2017 (Okah, et al., 2019), most of the studies centered on influence of budget deficit on economic growth. Even the ones that considered economic development ended up using gross domestic product as the measure. This created a vacuum in literature that needed to be filled. Therefore, in an attempt to examine the nexus between deficit financing and economic development in Nigeria, human development index will be used to proxy economic development.

3. Methodology

The empirical relationship that exists between budget deficit and economic development is worthwhile considering the long trend of deficit financing practiced in Nigeria. To this end, deficit financing and government expenditure were used to proxy budget deficit, however, human development index was used to measure the economic development in Nigeria for the period 1986 to 2019. Realising a fractional integration from the Augmented Dickey Fuller stationarity test, autoregressive distributive lag technique was employed. Also, granger causality test was used to determine the direction of causality among the employed variables. Thus, the model is stated as:
HDI = F (BD, GE) - - - - - - - - - - - - - - - - - - 1

Data on BD and GE were transformed using logarithm to have better performance in the model. Explicitly, the equation can be stated as;

$$\text{HDI} = \alpha_0 + \alpha_1 \text{BD} + \alpha_2 \text{GE} + \mu_1 - \ldots - - - - - - - - - - - - - - - - - - 2$$

Where,

BD = Budget deficit defined as federal government retained revenue minus total expenditure.  

GE = Government Expenditure  

HDI = Human Development Index  

μ = Stochastic/Disturbance/Random/ error term

The a priori expectations are that budget deficit and government expenditure should relate positively with human development index.

4. Results and Discussion of Findings

4.1 Stationarity Test

<table>
<thead>
<tr>
<th>Variable</th>
<th>ADF stat</th>
<th>Critical Value at 5%</th>
<th>Order of Integration</th>
<th>P-value</th>
</tr>
</thead>
<tbody>
<tr>
<td>HDI</td>
<td>-8.429680</td>
<td>-2.957110</td>
<td>I(1)</td>
<td>0.0000</td>
</tr>
<tr>
<td>LNBD</td>
<td>-7.430927</td>
<td>-2.971853</td>
<td>I(1)</td>
<td>0.0000</td>
</tr>
<tr>
<td>LNGE</td>
<td>-3.018588</td>
<td>-2.971853</td>
<td>I(0)</td>
<td>0.0453</td>
</tr>
</tbody>
</table>

Source: E-view 10 Output

The ADF stationarity test results in table 1 revealed a fractional integration, as human development index (HDI) and budget deficit (BD) are stationary at difference I(1) while government expenditure (GE) is stationary at level I(0). These results have implication for ARDL methodology which, unlike its related tests (e.g. Johansen and Engle- Granger co-integration frameworks), allows co-integration among variables that have different orders of integration. Therefore, the use of ARDL method for data analysis in this study is justified.

Table 2: Heteroskedasticity Test

<table>
<thead>
<tr>
<th>Heteroskedasticity Test: Harvey</th>
<th>P-value</th>
</tr>
</thead>
<tbody>
<tr>
<td>F-statistic</td>
<td>0.876376</td>
</tr>
<tr>
<td>Obs*R-squared</td>
<td>15.33409</td>
</tr>
<tr>
<td>Scaled explained SS</td>
<td>21.62534</td>
</tr>
</tbody>
</table>

Source: E-view 10 Output

The residual and normality in the model was checked using the result of Harvey heteroskedasticity test displayed in Table 3, the estimated sample shows a probability level
of 0.6088 which is greater than the 0.05 significance level, also, the observed $R^2$ of 4.945086, with P-value (0.5509) greater than 0.05%. This leads to the acceptance of the null hypothesis which shows that there is no existence of heteroskedasticity problem in the employed study model, thus the variables are influenced from the error term more than internally and it also validates the classical linear regression model assumption (CLRMA).

Table 3: Presentation of Bound Test Co-Integration Output

<table>
<thead>
<tr>
<th>Test statistic</th>
<th>Value</th>
<th>k</th>
</tr>
</thead>
<tbody>
<tr>
<td>F-statistic</td>
<td>12.32168</td>
<td>2</td>
</tr>
</tbody>
</table>

Critical Value Bounds

<table>
<thead>
<tr>
<th>Significance</th>
<th>I(0) Bound</th>
<th>1(1) Bound</th>
</tr>
</thead>
<tbody>
<tr>
<td>10%</td>
<td>2.63</td>
<td>3.35</td>
</tr>
<tr>
<td>5%</td>
<td>3.1</td>
<td>3.87</td>
</tr>
<tr>
<td>2.5%</td>
<td>3.55</td>
<td>4.38</td>
</tr>
<tr>
<td>1%</td>
<td>4.13</td>
<td>5</td>
</tr>
</tbody>
</table>

Source: E-view 10 Output

As revealed in Table 3, since the F-statistics of 21.89638 is greater than the upper and lower bound statistics at all levels (1%-10%), the null hypothesis is rejected, implying that there is a long run association between the variables under investigation.

4.2 Autoregressive Distributive Lag (ARDL)

The lag order selection for our ARDL model was based on the Schwarz information criterion (SIC) and Akaike information criterion (AIC). From the optimum lag length selection exercise, the minimum values of the SIC and AIC which is -7.0, and the model that gives this minimum value is ARDL (4, 5, 4). This implies that a model that includes four lag of the dependent variable (HDI), five lag of DF and four lag of GE, as the best description of our time series data.
Table 4: Autoregressive Distributive Lag (ARDL) Results

Dependent Variable: D(HDI)
Method: ARDL
Date: 02/02/21   Time: 11:00
Sample (adjusted): 1992-2019
Included observations: 20 after adjustments
Maximum dependent lags: 4 (Automatic selection)
Model selection method: Akaike info criterion (AIC)
Dynamic regressors (5 lags, automatic): D(LNBD) D(LNGE)
Fixed regressors: C
Number of models evaluated: 144
Selected Model: ARDL(4, 5, 4)

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
<th>Std. Error</th>
<th>t-Statistic</th>
<th>Prob.*</th>
</tr>
</thead>
<tbody>
<tr>
<td>D(HDI(-4))</td>
<td>-0.327955</td>
<td>0.129172</td>
<td>-2.538902</td>
<td>0.0641</td>
</tr>
<tr>
<td>D(LNBD(-5))</td>
<td>0.003566</td>
<td>0.002933</td>
<td>1.215877</td>
<td>0.2909</td>
</tr>
<tr>
<td>D(LNGE(-4))</td>
<td>0.039155</td>
<td>0.017634</td>
<td>2.220411</td>
<td>0.0906</td>
</tr>
<tr>
<td>C</td>
<td>0.007639</td>
<td>0.005339</td>
<td>1.430712</td>
<td>0.2258</td>
</tr>
<tr>
<td>R-squared</td>
<td>0.940561</td>
<td></td>
<td></td>
<td>0.009750</td>
</tr>
<tr>
<td>Adjusted R-squared</td>
<td>0.717664</td>
<td></td>
<td></td>
<td>0.014455</td>
</tr>
<tr>
<td>S.E. of regression</td>
<td>0.007680</td>
<td></td>
<td></td>
<td>-6.909709</td>
</tr>
<tr>
<td>Log likelihood</td>
<td>85.09709</td>
<td></td>
<td></td>
<td>2.152191</td>
</tr>
<tr>
<td>Prob(F-statistic)</td>
<td>0.000922</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*Note: p-values and any subsequent tests do not account for model selection

Source: E-view 10 Output

A priori expectations are that all the predictor variables should have positive relationship with the human development index (HDI). From the ARDL results shown in table 4 above, coefficient of determination (R²) for the model is 0.940561 indicating the strength of the explanatory variables (deficit financing and government expenditure) to explain changes that take place in the HDI. It implies that, budget deficit (BD) and government expenditure (GE) as elements of budget deficit account for 94.1 percent of variation in output level of goods and services as well as quality of citizens’ well-being in Nigeria. In other words, about 5.9 percent of variation in human development index is caused by other factors not included in the model.

The robustness of this result is further buttressed by the Durbin-Watson statistic of 2.152191 which falls within the acceptable region 1.5 to 2.5, thereby, clearly indicates that there is no effect of serial correlation among the variables used in the study. Also, with the F-statistic (4.219713) with p-value (0.000922) that is less than 0.05, signifies the fitness of the model.

As displayed in table 4, the coefficients and t-statistic of BD and GE assume appositive but insignificant values. In relation to human development index, this indicates
that the employment of budget deficit as well as government expenditure has favoured economic development in Nigeria within the period of study. In other words, one unit increase in the use of deficit financing and government expenditure, will increase economic development in Nigeria by 0.003566 and 0.039155 billion naira respectively. However, BD and GE exert marginal influences on human development index. This suggests that even though, BD and GE have the tendency to enhance economic development, the case of Nigeria has been inefficient. This reveals reasons for the low output level of goods and services, poor standard of living, balance of payment deficit, high unemployment level, and high cost of living in the economy despite the huge amount of deficit financing all through the years.

In agreement with the Keynesian theory, these findings are in support of Okah, et al (2019) whose study revealed that deficit financing has positive but insignificant effect on Nigerian economic growth. The findings also in line with Momodu and Monogbe (2017) that federal government budget deficit has contributed to performance of the economy although not been felt to a reasonable extent.

### 4.3 Granger Causality Test

#### Table 5: Granger Causality Test

<table>
<thead>
<tr>
<th>Pairwise Granger Causality Tests</th>
<th>Obs</th>
<th>F-Statistic</th>
<th>Prob.</th>
</tr>
</thead>
<tbody>
<tr>
<td>BD does not Granger Cause HDI</td>
<td>33</td>
<td>1.77139</td>
<td>0.1932</td>
</tr>
<tr>
<td>HDI does not Granger Cause BD</td>
<td></td>
<td>1.73953</td>
<td>0.1972</td>
</tr>
<tr>
<td>GE does not Granger Cause HDI</td>
<td>33</td>
<td>6.42776</td>
<td>0.0167</td>
</tr>
<tr>
<td>HDI does not Granger Cause GE</td>
<td></td>
<td>0.00026</td>
<td>0.9872</td>
</tr>
<tr>
<td>GE does not Granger Cause BD</td>
<td>33</td>
<td>1.66572</td>
<td>0.2067</td>
</tr>
<tr>
<td>BD does not Granger Cause GE</td>
<td></td>
<td>7.53220</td>
<td>0.0101</td>
</tr>
</tbody>
</table>

**Source:** E-view 10 Output

Although there exist independent relationship between budget deficit and human development index as shown in panel 1, however, a cursory observation of Granger causality result in Table 5 (panel 2), shows that there exist a uni-directional relationship between government expenditure and human development index in Nigeria, with causality flowing from government expenditure to economic development. This suggests the importance of government expenditure in stimulating economic growth and development especially an emerging economy like Nigeria.

### 5. Conclusion and Recommendations

It is concluded that deficit financing contribute marginally to economic development in Nigeria. Therefore, for the attainment of an efficient deficit-financing impact on
development in Nigeria, the study recommended establishment of an institutional framework to monitor the application of budgeted funds. Also, oversight function of state and national assemblies be further be strengthened. Finally, all borrowed fund should be channeled into productive projects capable of enhancing the people’s economic well-being as well as servicing the debt. These measures will enhance value for money spent.
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