**AN EVALUATION OF THE EFFECT OF BUDGET DEFICIT ON THE ECONOMIC GROWTH IN NIGERIA (1993-2023)**

**CHAPTER ONE**

**INTRODUCTION**

**1.1 Background to the Study**

Economic growth remains a fundamental objective for governments worldwide, particularly in developing economies like Nigeria, where macroeconomic stability is often threatened by persistent budget deficits. A budget deficit occurs when a government’s expenditure exceeds its revenue within a fiscal period, necessitating borrowing to finance the shortfall. While deficit spending can stimulate economic activity in the short run, excessive reliance on borrowing—both domestic and external—can have profound implications for economic stability, inflation, and long-term growth (Yusuf & Mohd, 2021; Ajayi & Edewusi, 2020).

Nigeria’s fiscal landscape has been characterized by recurrent budget deficits, primarily driven by fluctuations in oil revenue, rising government expenditure, and debt accumulation (Eregha & Mesagan, 2020). The country’s overdependence on oil revenue has led to budgetary imbalances, particularly during periods of declining global oil prices. In response, successive administrations have resorted to increased government spending and external borrowing to bridge fiscal gaps, raising concerns about debt sustainability and its impact on economic growth (Omodero & Alpheaus, 2019; Didia & Ayokunle, 2020).

The relationship between budget deficits and economic growth is complex and has been widely debated in economic literature. Some economists argue that deficit financing can stimulate aggregate demand and foster growth if funds are effectively allocated to productive sectors such as infrastructure, healthcare, and education (Olatunji & Hassan, 2022). Others contend that excessive deficits contribute to inflationary pressures, crowd out private investment, and increase the cost of debt servicing, ultimately stifling economic progress (Fasanya, Fajobi, & Adetokunbo, 2021).

Nigeria’s fiscal policies have also been shaped by global economic trends and domestic economic challenges, including inflation, exchange rate volatility, and declining foreign direct investment (Olorogun, Salami, & Bekun, 2022). Inflation, in particular, erodes the purchasing power of consumers and distorts investment decisions, thereby affecting overall economic growth (Adaramola & Dada, 2020; Idolor & Raphael, 2022). Government expenditure, another critical variable in this study, plays a dual role—acting as a catalyst for growth when efficiently utilized but becoming a burden when mismanaged, leading to fiscal imbalances (Samuel & Oruta, 2021).

Furthermore, Nigeria’s external and domestic debt portfolios have expanded significantly over the years, raising concerns about debt sustainability. While external borrowing provides access to foreign capital, excessive debt accumulation can lead to exchange rate instability and increased vulnerability to external shocks (Manasseh et al., 2022; Agyapong & Bedjabeng, 2020). Similarly, domestic debt, often financed through treasury bills and bonds, can crowd out private sector investment, thereby limiting the growth potential of the economy (Hilton, 2021; Ogunjimi, 2019).

Given these dynamics, evaluating the effect of budget deficits on Nigeria’s economic growth from 1993 to 2023 is crucial for understanding the broader implications of fiscal policy decisions. This study will analyze key macroeconomic indicators, including Gross Domestic Product (GDP), government expenditure, government deficit, inflation rate, external debt, and domestic debt, to provide empirical insights into the relationship between fiscal deficits and economic performance (Adebayo, Bolukale, & Anagun, 2025).

**1.2 Statement of the Problem**

Despite numerous fiscal policy reforms aimed at reducing Nigeria’s budget deficits, the country continues to grapple with persistent fiscal imbalances. The reliance on deficit financing, particularly through external and domestic borrowing, has raised concerns about the sustainability of Nigeria’s economic growth. While some scholars argue that deficit spending has a positive impact on growth by stimulating aggregate demand, others warn that excessive deficits lead to inflationary pressures, currency depreciation, and a rising debt burden (Dey & Tareque, 2020; Edo, Osadolor, & Dading, 2020).

The inconsistency in empirical findings on the impact of budget deficits on economic growth in Nigeria necessitates further investigation. Existing studies have focused on different aspects of fiscal policy, but there remains a gap in understanding how budget deficits, in conjunction with other macroeconomic variables such as inflation, external debt, and domestic debt, influence GDP growth in Nigeria (Ehigiamusoe, Lean, & Chan, 2020).

This study, therefore, seeks to provide a comprehensive evaluation of the effect of budget deficits on Nigeria’s economic growth over a 30-year period. By analyzing government expenditure trends, inflationary effects, and debt accumulation, this research aims to offer policy recommendations that could enhance fiscal discipline and promote sustainable economic growth.

**1.3 Research Questions**

1. What is the impact of budget deficits on Nigeria’s Gross Domestic Product (GDP) between 1993 and 2023?
2. How do inflation and government expenditure mediate the relationship between budget deficits and economic growth in Nigeria?
3. What are the implications of external and domestic debt on Nigeria’s long-term economic sustainability?

**1.4 Objectives of the Study**

The objectives of this study are:

1. To evaluate the impact of budget deficits on Nigeria’s economic growth from 1993 to 2023.
2. To examine the role of inflation and government expenditure in influencing the relationship between budget deficits and economic growth.
3. To assess the effect of external and domestic debt on Nigeria’s economic sustainability.

**1.5 Research Hypotheses**

The study will test the following null hypotheses:

**H₀₁:** Budget deficits have no significant impact on Nigeria’s economic growth.

**H₀₂:** Inflation and government expenditure do not significantly mediate the relationship between budget deficits and economic growth.

**H₀₃:** External and domestic debt have no significant effect on Nigeria’s economic sustainability.

**1.6 Significance of the Study**

The findings of this study will be valuable to policymakers, economists, and financial analysts in understanding the implications of fiscal deficits on Nigeria’s economic growth. It will provide empirical evidence on the effectiveness of deficit financing and offer insights into optimal fiscal policies that can enhance economic stability. Additionally, the research will contribute to the academic discourse on public finance management and macroeconomic policy by offering updated data and analysis on Nigeria’s fiscal trends (Ehigiamusoe & Samsurijan, 2021; Nosike, 2019).

For government institutions and policymakers, the study will highlight the importance of prudent fiscal management and sustainable debt policies to mitigate the adverse effects of excessive borrowing. It will also guide financial institutions and investors in assessing Nigeria’s macroeconomic environment for investment decisions (Nguyen & Darsono, 2022).

**1.7 Scope and Delimitation of the Study**

This study focuses on Nigeria’s budget deficits and their impact on economic growth from 1993 to 2023. The analysis will cover key macroeconomic indicators such as GDP, government expenditure, inflation rate, external debt, and domestic debt. The study is limited to Nigeria due to data availability and the country’s unique fiscal dynamics.

The research will primarily rely on secondary data from government reports, the Central Bank of Nigeria (CBN), the National Bureau of Statistics (NBS), and other relevant financial institutions. Given the reliance on existing data, potential limitations include data inconsistencies and the inability to capture informal economic activities that may influence Nigeria’s fiscal landscape.

**CHAPTER TWO**

**REVIEW OF RELATED LITERATURE**

This chapter provides an in-depth review of the literature related to the evaluation of the effect of budget deficits on economic growth in Nigeria. It begins with a discussion of the conceptual framework underlying the study, followed by a comprehensive theoretical literature review. The subsequent section focuses on empirical literature that has investigated the relationship between fiscal variables (including government expenditure, budget deficits, inflation, external debt, and domestic debt) and economic growth. In addition, a tabular summary of key empirical studies is provided, and the chapter concludes with a discussion of the identified gaps in the empirical literature.

**2.1 Conceptual Framework**

The conceptual framework guiding this study is premised on the notion that fiscal policy decisions—particularly those related to budget deficits—play a pivotal role in shaping economic growth outcomes. This framework is not only grounded in established economic theories but also enriched by empirical findings from the Nigerian context, which reveal the complex interactions among key macroeconomic variables such as government expenditure, inflation, external debt, and domestic debt (Yusuf & Mohd, 2021; Omodero & Alpheaus, 2019).

**2.1. Fiscal Policy and Growth Dynamics**

At the heart of this framework is the concept of fiscal policy, which encompasses both revenue mobilization and expenditure decisions by the government. A budget deficit occurs when government expenditure exceeds its revenue within a given fiscal period. While deficit financing can serve as a tool for stimulating economic activity—especially during periods of economic downturn—the efficacy of this approach largely depends on how the borrowed funds are allocated. Keynesian economics posits that in times of subdued private sector demand, government spending financed through deficits can have a multiplier effect on the economy, boosting aggregate demand and driving GDP growth (Olatunji & Hassan, 2022). However, this stimulative effect is contingent upon the efficient utilization of resources in productive sectors such as infrastructure, education, and healthcare.

Conversely, neoclassical and Ricardian perspectives warn that persistent budget deficits may lead to higher interest rates, crowd out private investment, and eventually result in a net negative impact on growth (Samuel & Oruta, 2021; Ajayi & Edewusi, 2020). In these views, the long-run consequences of deficit financing—such as the increased burden of debt servicing and the erosion of investor confidence—can undermine the initial gains from increased government expenditure.

**2.2. The Role of Government Expenditure**

Government expenditure is a critical component of the fiscal mix. It can be disaggregated into recurrent and capital expenditure. Capital expenditure, often associated with long-term investments in infrastructure and human capital, is generally regarded as growth-enhancing. In contrast, recurrent expenditure, which covers day-to-day operations and salaries, may not yield the same long-term benefits if not managed efficiently (Samuel & Oruta, 2021). The conceptual framework thus emphasizes that the impact of budget deficits on economic growth is not uniform; rather, it is influenced by the nature and efficiency of government spending. When deficits finance capital projects, they may lead to sustainable growth, whereas reliance on recurrent spending can exacerbate fiscal imbalances without generating commensurate growth benefits.

**3.3. Inflation as a Mediating Factor**

Inflation is another crucial variable in this framework. The relationship between budget deficits and inflation is mediated by several factors, including the extent of deficit financing and the responsiveness of the monetary authority. When governments finance deficits through borrowing or money creation, there is a risk of fueling inflation, especially if the output gap is narrow (Fasanya et al., 2021). High inflation, in turn, erodes the real value of both consumer income and investment returns, which can dampen economic growth. This inflationary channel is particularly relevant in the Nigerian context, where fluctuations in the inflation rate have been observed to correlate with shifts in fiscal policy (Adaramola & Dada, 2020; Idolor & Raphael, 2022).

In the framework, inflation operates as a double-edged sword. On one hand, moderate inflation may reflect robust demand and a growing economy; on the other hand, unanchored inflation can lead to economic instability and undermine the benefits of deficit-financed investments. Hence, understanding how inflation interacts with budget deficits is essential for crafting fiscal policies that balance short-term stimulus with long-term stability.

**4. Debt Accumulation and Sustainability**

A critical element of the framework is the distinction between external and domestic debt. Both types of debt are common channels through which governments finance budget deficits. External debt, while providing access to foreign capital, exposes the economy to exchange rate risks and global financial volatility. Excessive external borrowing can lead to adverse terms of trade and compromise the country’s creditworthiness (Manasseh et al., 2022). Domestic debt, often raised through government bonds and treasury bills, carries the risk of crowding out private investment by absorbing a significant portion of available credit in the financial market (Didia & Ayokunle, 2020; Ogunjimi, 2019).

In the conceptual framework, the sustainability of debt accumulation is paramount. There exists a threshold beyond which the benefits of deficit financing are outweighed by the costs of servicing high levels of debt. This debt sustainability threshold is influenced by the growth rate of the economy, the interest rates on borrowing, and the efficiency of public expenditure. Empirical evidence from Nigeria suggests that while moderate levels of debt can stimulate growth by financing development projects, surpassing the critical threshold leads to increased fiscal vulnerability and slower growth (Yusuf & Mohd, 2021).

**5. Transmission Mechanisms and Policy Implications**

The framework further outlines several transmission mechanisms through which budget deficits affect economic growth:

**Fiscal Multiplier Effect:** When deficit spending is directed toward productive investments, it can generate a multiplier effect that boosts aggregate demand and stimulates growth. However, if the spending is inefficient or misdirected, the multiplier effect is muted (Olatunji & Hassan, 2022).

**Crowding-Out Effect:** Excessive borrowing to finance deficits may lead to higher interest rates, which in turn reduce private sector investment. This crowding-out effect is particularly acute when domestic debt dominates the financing structure (Didia & Ayokunle, 2020).

**Inflationary Pressure:** Persistent deficits, especially when financed by money creation, can lead to inflation. Inflation diminishes the real value of income and savings, thereby constraining growth (Fasanya et al., 2021).

Debt Sustainability and Investor Confidence: The perception of fiscal mismanagement and unsustainable debt levels can reduce investor confidence, leading to reduced capital inflows and slower economic growth. Effective debt management is thus essential for maintaining fiscal credibility and promoting economic stability (Manasseh et al., 2022).

Understanding these transmission mechanisms is vital for policymakers. The framework suggests that achieving a balance between stimulating short-term growth and maintaining long-term fiscal sustainability requires a nuanced approach. For instance, reforms aimed at enhancing revenue mobilization—such as improving tax collection systems—can reduce the reliance on deficit financing and mitigate the inflationary and crowding-out effects (Berembo & Igonikon, 2020). Additionally, policies that promote efficiency in government expenditure, particularly by prioritizing capital investments over recurrent spending, can enhance the positive impact of fiscal deficits on growth.

**6. Integration of Macroeconomic Stability**

A robust macroeconomic environment is a necessary condition for the positive effects of fiscal policy to materialize. In this framework, macroeconomic stability—including controlled inflation, stable exchange rates, and a sound banking system—is considered an essential moderator of the relationship between budget deficits and economic growth. Empirical studies have demonstrated that countries with stable macroeconomic policies tend to experience better growth outcomes, even in the presence of moderate fiscal deficits (Ehigiamusoe, Lean, & Chan, 2020; Adebayo, Bolukale, & Anagun, 2025).

In Nigeria, where economic and political uncertainties frequently affect fiscal outcomes, maintaining macroeconomic stability is both a challenge and a priority. The framework underscores that policy measures aimed at enhancing stability—such as prudent monetary policies and structural reforms—can help offset the adverse effects of budget deficits. For example, targeted interventions to control inflation can preserve the real value of investments and sustain economic momentum, even when fiscal imbalances persist.

**2.2 Theoretical Literature Review**

The theoretical literature on fiscal deficits and economic growth has evolved considerably over the decades, drawing on multiple economic schools of thought. At the heart of this debate lies the question: Does deficit financing spur economic growth or does it hamper it? Several theories provide insights into this issue.

**Keynesian Economics**

Keynesian theory argues that in times of economic downturn, government spending financed by budget deficits can stimulate demand and pull the economy out of recession. This school of thought maintains that fiscal expansion can have a multiplier effect on GDP, as increased government spending leads to higher income and consumption (Olatunji & Hassan, 2022). For instance, during periods of low private sector investment, deficit spending can compensate by funding infrastructure and other growth-enhancing projects. However, Keynesians also warn that such policies should be temporary and that persistent deficits can lead to higher inflation and unsustainable debt levels (Samuel & Oruta, 2021).

**Ricardian Equivalence**

In contrast, the Ricardian Equivalence hypothesis suggests that consumers are forward-looking and will anticipate future tax liabilities resulting from deficit financing. According to this view, any increase in government spending financed through debt will be offset by a decrease in private consumption as households save more to pay for future tax increases. As a result, the net effect on economic growth is neutral (Ajayi & Edewusi, 2020). While this hypothesis offers an elegant theoretical perspective, empirical evidence from Nigeria and other developing economies often shows deviations from the Ricardian Equivalence due to market imperfections and limited access to credit (Eregha & Mesagan, 2020).

**Neoclassical Perspectives**

Neoclassical growth models stress the importance of savings and investment in driving long-run economic growth. From this perspective, budget deficits are seen as potentially harmful if they lead to higher interest rates that discourage private investment—a phenomenon known as “crowding out.” Empirical studies in Nigeria have highlighted how increases in public debt may crowd out private capital, thereby reducing the funds available for productive investments (Omodero & Alpheaus, 2019; Didia & Ayokunle, 2020). Neoclassical theorists argue that sustainable growth can only be achieved if fiscal policies are balanced and do not impede private sector activity.

**Endogenous Growth Theory**

Endogenous growth models extend the discussion by emphasizing the role of government policies, including fiscal deficits, in fostering innovation, human capital, and technological advancement. Proponents of endogenous growth argue that well-targeted government spending—particularly on education, research and development, and infrastructure—can generate positive externalities that enhance long-term productivity (Keji, 2021; Ilugbusi et al., 2020). However, if deficit spending is misdirected or inefficiently allocated, it may fail to produce these beneficial effects, thereby impeding economic growth (Berembo & Igonikon, 2020).

**Modern Fiscal Theories**

Recent theoretical advancements have sought to integrate the impacts of external and domestic debt within the broader context of fiscal policy. Modern fiscal theories consider the interplay between budget deficits, inflation, and debt servicing costs. For example, studies have noted that the inflationary effects of deficit financing can erode the real value of debt, but they can also lead to economic instability if inflation becomes unanchored (Fasanya et al., 2021; Adaramola & Dada, 2020). Moreover, research suggests that fiscal sustainability depends on the government’s ability to manage both external and domestic debt effectively, thereby maintaining investor confidence and ensuring access to capital markets (Manasseh et al., 2022).

In sum, the theoretical literature provides a diverse set of perspectives on the relationship between budget deficits and economic growth. While Keynesian models emphasize the short-term stimulative effects of deficit spending, neoclassical and Ricardian approaches caution against its long-term consequences. Endogenous growth theory and modern fiscal models underscore the importance of efficient public expenditure and debt management in translating fiscal deficits into sustained economic progress. These varied theoretical insights underscore the need for empirical investigations that can reconcile these differences in the context of Nigeria’s unique economic environment.

**2.3 Empirical Literature Review**

Empirical studies investigating the relationship between budget deficits and economic growth in Nigeria have employed a range of methodologies and have yielded mixed results. This section reviews notable empirical studies, highlighting their objectives, methodologies, findings, and limitations.

Yusuf and Mohd (2021) conducted an empirical study to evaluate the impact of government debt on economic growth in Nigeria. The study aimed to assess how both external and domestic debt influence GDP growth over an extended period. Employing a time-series analysis with cointegration and error-correction models, the authors found that while moderate levels of debt can stimulate economic growth, excessive debt accumulation tends to have a negative impact on growth due to increased servicing costs and inflationary pressures. The study recommended that fiscal policies be reoriented to ensure sustainable borrowing practices. However, the study did not fully account for the role of government expenditure in mediating the relationship between debt and growth.

Olatunji and Hassan (2022) examined the relationship between budget deficits and national development. Their objective was to explore how fiscal imbalances affect developmental outcomes in Nigeria. Using a combination of regression analysis and structural break tests, the study revealed that persistent budget deficits are associated with lower levels of human capital development and infrastructural expansion. Although the study provided useful insights into the negative effects of fiscal imbalances, it did not consider the moderating effects of other macroeconomic variables such as inflation and external shocks.

Samuel and Oruta (2021) focused on the relationship between government expenditure and economic growth in Nigeria by disaggregating government spending into its various components. The study employed panel data analysis to assess the impact of different categories of government expenditure on GDP. The findings suggested that while capital expenditure had a positive effect on growth, recurrent expenditure did not significantly contribute to economic expansion. The authors recommended a reallocation of spending towards more productive sectors. However, the study did not extend its analysis to include the implications of budget deficits per se.

Onifade et al. (2020) offered an empirical retrospect on the impacts of government expenditures on economic growth. Their objective was to provide new evidence from the Nigerian economy by considering various macroeconomic variables, including fiscal deficits and inflation. Using vector autoregression (VAR) techniques, the authors found that fiscal deficits, when accompanied by high inflation, negatively affected economic growth. They recommended that future fiscal policies should aim at controlling inflation alongside managing deficits. Nevertheless, the study’s scope was limited by its short-run focus and did not fully capture the long-run dynamics of fiscal deficits.

Omodero and Alpheaus (2019) investigated the effect of foreign debt on the economic growth of Nigeria. The aim of their study was to determine whether external borrowing could serve as a catalyst for growth or whether it would exacerbate fiscal vulnerabilities. Utilizing regression analysis on time-series data, the study found that while foreign debt initially contributed positively to growth by financing developmental projects, an excessive debt burden ultimately undermined economic performance due to the crowding-out effect on domestic investment. The study recommended enhanced debt management strategies, yet it did not explore the differential impacts of external versus domestic debt in detail.

Eregha and Mesagan (2020) conducted a study on the interlinkages between oil resource dependence, deficit financing, and per capita GDP growth in oil-rich African nations, with Nigeria as a key focus. The study employed a dynamic heterogeneous panel approach and revealed that deficit financing, particularly in the context of volatile oil revenues, had adverse effects on per capita GDP growth. The study emphasized the need for diversifying the economy to reduce vulnerability. However, the study was limited by its focus on per capita measures rather than overall economic growth.

Ajayi and Edewusi (2020) investigated the effect of public debt on Nigeria’s economic growth using an empirical framework that combined cointegration techniques with error-correction models. Their findings indicated that public debt, when maintained within moderate levels, could have a growth-enhancing effect; however, beyond a critical threshold, the negative impacts such as inflation and debt servicing costs became dominant. The study recommended tighter fiscal discipline and improved revenue mobilization, though it did not fully explore the role of government expenditure in offsetting these effects.

Didia and Ayokunle (2020) examined both external and domestic debt and their impact on economic growth. The study employed econometric modeling to assess how these two types of debt influenced Nigeria’s GDP. It found that domestic debt tended to have a more pronounced negative effect on growth compared to external debt, largely due to its crowding-out effect on the private sector. The study underscored the importance of balancing the composition of debt financing. However, the methodology did not account for potential endogeneity issues that might bias the estimated relationships.

Fasanya et al. (2021) focused on the inflationary effects of fiscal deficits in Nigeria. The study used bounds testing to cointegration with structural breaks to examine whether fiscal deficits contributed to inflationary pressures. The findings confirmed that persistent deficits were indeed inflationary, thereby eroding real economic gains. The authors recommended that fiscal authorities adopt more disciplined budgetary practices. Despite its robust methodology, the study did not fully investigate how these inflationary pressures translated into long-term economic growth outcomes.

Adaramola and Dada (2020) investigated the impact of inflation on economic growth using an empirical framework that integrated inflation as a key determinant of growth. Their study provided evidence that high inflation rates have a dampening effect on investment and consumer spending, thereby impeding economic expansion. While the study highlighted the critical role of inflation, it did not directly assess the influence of budget deficits on inflation dynamics.

Ehigiamusoe, Lean, and Chan (2020) explored the influence of macroeconomic stability—including fiscal discipline—on financial development in developing economies, with a special focus on the West African region. Their analysis revealed that countries with stable macroeconomic policies experienced better financial development outcomes, which in turn supported economic growth. Although this study was not limited solely to Nigeria, its findings are relevant in understanding how fiscal deficits, as a component of macroeconomic instability, can hinder growth.

Adebayo, Bolukale, and Anagun (2025) provided recent insights into the relationship between internal macroeconomic stability factors and economic growth in Nigeria. Using advanced econometric techniques, the study found significant interactions between fiscal deficits, inflation, and other stability factors. The authors argued that fiscal discipline and sustainable debt management are critical for maintaining growth momentum. Nonetheless, the study did not disaggregate the impact of external versus domestic debt financing, leaving room for further research.

Ogunjimi (2019) examined the impact of public debt on investment in Nigeria. His study employed regression analysis and found evidence that high levels of public debt tend to crowd out private investment, thereby stifling overall economic growth. The study recommended a cautious approach to debt accumulation but did not fully explore how investment dynamics interact with other macroeconomic variables such as government expenditure and inflation.

Nguyen and Darsono (2022) assessed the impacts of tax revenue and investment on economic growth in Southeast Asian countries, drawing parallels with fiscal dynamics in Nigeria. Although the study focused on a different geographic region, its methodological approach and findings on the importance of tax revenue in financing development projects provide useful comparative insights. However, the study did not directly evaluate the role of budget deficits.

Idolor and Raphael (2022) investigated the effect of the inflation rate and investment on economic growth in Nigeria. Their empirical analysis revealed that inflation significantly eroded the benefits of investment, thereby constraining growth. While the study underscores the role of inflation as a mediator, it did not fully incorporate the impact of budget deficits and associated borrowing activities.

Keji (2021) focused on the role of human capital in driving economic growth in Nigeria. By employing panel data analysis, the study demonstrated that investments in education and skill development positively contributed to growth. Although not directly examining budget deficits, Keji’s work highlights the broader context within which fiscal policies—including deficit financing—operate to influence long-term growth prospects.

Forrest (2019) provided a broader analysis of the relationship between political stability, fiscal policies, and economic development in Nigeria. His work underscored how political uncertainties could exacerbate the negative effects of fiscal deficits on economic performance. The study emphasized that political reforms, along with fiscal discipline, are necessary for sustainable growth. However, it did not specifically isolate the impact of budget deficits from other political factors.

Ilugbusi et al. (2020) examined the role of financial liberalization in promoting economic growth in Nigeria. Their analysis found that reforms aimed at liberalizing the financial sector could mitigate some of the adverse effects of fiscal deficits by improving credit availability and reducing borrowing costs. Although the study offers a valuable perspective on mitigating fiscal imbalances, it did not thoroughly analyze the direct relationship between budget deficits and GDP growth.

Berembo and Igonikon (2020) conducted an empirical analysis on the relationship between government revenue and economic growth in Nigeria. The study highlighted that efficient revenue mobilization could offset the negative impacts of budget deficits by reducing the need for excessive borrowing. Their findings suggest that improving tax collection mechanisms may help stabilize the economy. However, the study was limited in its ability to examine the dynamic interactions among various fiscal variables over time.

Darma, Magaji, and Amase (2022) explored the macroeconomic impact of oil price shocks on government expenditure and economic growth. Their study revealed that fluctuations in oil prices significantly affect fiscal deficits, which in turn influence overall economic performance. The authors recommended that fiscal policies should incorporate mechanisms to buffer against external shocks. Nevertheless, the study’s scope was restricted to the oil sector, leaving unanswered questions regarding broader fiscal variables.

Adejumo (2020) investigated the relationship between environmental quality and economic growth in developing economies. While not focused solely on fiscal deficits, the study provided insights into how sustainable public expenditure can be aligned with environmental objectives to foster long-term growth. The findings underscore the multidimensional nature of fiscal policy, although the study did not isolate the fiscal deficit variable.

Matthew et al. (2021) examined the interaction effect of tourism and foreign exchange earnings on economic growth in Nigeria. Their study highlighted that increased foreign exchange earnings could potentially offset some adverse effects of fiscal deficits by providing alternative revenue sources. However, the research did not consider the direct role of government borrowing in shaping these outcomes.

Ehigiamusoe and Samsurijan (2021) critically surveyed the finance–growth nexus in Nigeria, identifying macroeconomic stability as a key determinant. Their empirical findings suggested that improved fiscal discipline, including reduced budget deficits, fosters a stable financial environment conducive to growth. Despite its comprehensive approach, the study did not clearly differentiate the impacts of external versus domestic debt.

Ayenew (2022) investigated the impact of foreign financial inflows on the economic growth of sub-Saharan African countries, with implications for Nigeria. The study’s methodology included panel data analysis and revealed that while foreign inflows can stimulate growth, they are also accompanied by fiscal challenges if not managed prudently. The study highlighted the importance of balancing inflows with sound fiscal policies, but it did not directly explore the budget deficit channel.

Olorogun, Salami, and Bekun (2022) revisited the nexus between foreign direct investment (FDI), financial development, and economic growth in Nigeria. Their empirical findings indicated that FDI plays a critical role in offsetting some negative aspects of fiscal deficits, provided that the financial system is robust. Nevertheless, the study did not offer an in-depth analysis of the direct effects of government borrowing on economic performance.

Manasseh et al. (2022) analyzed the interplay between external debt and economic growth in Sub-Saharan Africa, emphasizing the role of governance in mediating this relationship. The study found that good governance practices can mitigate the adverse effects of high external debt, thereby supporting economic stability. Although comprehensive, the study did not address how internal fiscal policies, such as budget deficits, interact with governance mechanisms.

Nosike (2019) explored the relationship between government spending on agriculture and output growth in Nigeria. The study provided evidence that targeted fiscal spending in the agricultural sector could stimulate growth. However, it did not examine the broader impact of overall budget deficits on economic performance.

Adelowokan et al. (2019) investigated the linkages between unemployment, poverty, and economic growth in Nigeria. Their findings suggested that fiscal imbalances, including budget deficits, indirectly contribute to higher unemployment and poverty levels, which in turn suppress growth. While the study added an important social dimension to the fiscal debate, it did not incorporate a detailed analysis of fiscal variables such as domestic and external debt.

Hilton (2021) examined the contemporary evidence of public debt and economic growth in a developing economy context. His empirical analysis reinforced the notion that while moderate debt can be growth-enhancing, excessive borrowing tends to undermine economic performance. The study recommended careful debt management policies; however, it was limited by its cross-sectional design and did not capture the dynamic trends over time.

Mohsin et al. (2022) investigated the role of technological progress and renewable energy in driving green economic growth. Although the study primarily focused on environmental factors, it provided insights into how fiscal deficits can be managed through investments in renewable energy and technology. The study, however, did not explore the direct link between budget deficits and overall GDP growth.

Jibir and Aluthge (2019) modeled the determinants of government expenditure in Nigeria. Their empirical work underscored the significance of revenue mobilization and fiscal discipline in determining government spending patterns. While insightful, the study did not directly address how these determinants interact with fiscal deficits to influence economic growth.

Orisadare and Fasoye (2022) explored the effect of value-added tax on economic growth in Nigeria. Their study demonstrated that a well-designed tax system could generate sufficient revenue to reduce reliance on borrowing, thereby mitigating the negative impacts of budget deficits. Despite its policy relevance, the study did not integrate a comprehensive analysis of other fiscal variables such as inflation and debt composition.

Dey and Tareque (2020) examined the role of stable macroeconomic policies in moderating the impact of external debt on growth. Their findings confirmed that a stable policy environment could cushion the adverse effects of high external debt levels. However, the study did not fully explore how budget deficits interact with macroeconomic stability measures.

Afolabi (2022) assessed the roles of financial development and trade openness in fostering economic growth in Nigeria. The empirical evidence suggested that a more developed financial system could absorb shocks arising from fiscal deficits and promote sustainable growth. Nonetheless, the study’s focus on trade openness meant that it did not extensively cover the fiscal deficit variable.

Edo, Osadolor, and Dading (2020) explored the twin challenges of growing external debt and declining exports in sub-Saharan African countries, including Nigeria. Their analysis demonstrated that increasing external debt adversely affected export performance, thereby constraining overall economic growth. The study, however, was limited in its ability to isolate the individual effects of domestic and external borrowing.

Adefolake and Omodero (2022) investigated the relationship between tax revenue and economic growth in Nigeria, concluding that enhanced tax revenue could serve as a counterbalance to excessive deficit financing. Although the study provided important policy recommendations, it did not fully engage with the dynamics of fiscal deficits and debt composition.

Ohonba and Ogbeide (2023) examined the impact of insurance sector development on the growth of the Nigerian economy. Their findings suggested that a well-developed insurance sector could mitigate some of the risks associated with high fiscal deficits by providing alternative financing mechanisms. Despite its innovative approach, the study did not provide a comprehensive analysis of how budget deficits directly influence economic growth.

The empirical literature reviewed above reveals a complex and often context-dependent relationship between budget deficits and economic growth. While several studies have found evidence that fiscal deficits can stimulate growth under certain conditions, many have also highlighted the dangers of unsustainable borrowing practices, inflationary pressures, and the crowding-out of private investment.

**2.4 Summary of Empirical Literature**

To provide a clearer picture of the empirical evidence, Table 2.1 below summarizes key studies reviewed in this chapter. The table includes details on the authors, location of the study, topic, variables considered, method of analysis, and major findings.

| **Author(s)/Year** | **Location of the Study** | **Topic** | **Variables of the Model** | **Method of Analysis** | **Findings** |
| --- | --- | --- | --- | --- | --- |
| Yusuf & Mohd (2021) | Nigeria | Impact of government debt on economic growth | GDP, external debt, domestic debt, government revenue | Time-series analysis, cointegration, error-correction | Moderate debt may stimulate growth; excessive debt has a negative impact due to high servicing costs and inflationary pressures. |
| Olatunji & Hassan (2022) | Nigeria | Budget deficits and national development | Budget deficit, government expenditure, developmental outcomes | Regression analysis, structural break tests | Persistent deficits hinder human capital development and infrastructure expansion. |
| Samuel & Oruta (2021) | Nigeria | Disaggregated analysis of government expenditure | Government expenditure (capital vs. recurrent), GDP | Panel data analysis | Capital expenditure positively influences growth; recurrent expenditure shows insignificant impact. |
| Onifade et al. (2020) | Nigeria | Empirical retrospect on government expenditures and economic growth | Fiscal deficits, inflation, GDP, government spending | Vector autoregression (VAR) techniques | Deficits coupled with high inflation negatively affect economic growth. |
| Omodero & Alpheaus (2019) | Nigeria | Effect of foreign debt on economic growth | Foreign debt, domestic investment, GDP | Regression analysis | Foreign debt initially supports growth, but excessive borrowing crowds out private investment. |
| Eregha & Mesagan (2020) | Nigeria/Africa | Oil resources, deficit financing and per capita GDP growth | Oil revenue, deficit financing, per capita GDP | Dynamic heterogeneous panel approach | Dependence on oil revenue exacerbates the negative impact of deficits on per capita GDP growth. |
| Ajayi & Edewusi (2020) | Nigeria | Effect of public debt on economic growth | Public debt, GDP, inflation | Cointegration and error-correction models | Public debt supports growth up to a threshold; beyond that, negative impacts dominate due to inflation and debt servicing burdens. |
| Didia & Ayokunle (2020) | Nigeria | External and domestic debt effects on economic growth | External debt, domestic debt, GDP | Econometric modeling | Domestic debt has a more pronounced negative effect than external debt due to crowding out of private investment. |
| Fasanya et al. (2021) | Nigeria | Fiscal deficits and inflation | Budget deficits, inflation rate, GDP | Bounds testing to cointegration with structural breaks | Persistent deficits are inflationary, thereby reducing real economic gains. |
| Adaramola & Dada (2020) | Nigeria | Impact of inflation on economic growth | Inflation rate, GDP, investment | Empirical analysis | High inflation significantly reduces investment and consumption, thereby impeding growth. |
| Ehigiamusoe, Lean & Chan (2020) | West Africa | Macroeconomic stability and financial development | Fiscal discipline, inflation, financial development, GDP | Panel data regression analysis | Countries with stable fiscal policies experience better financial development and growth outcomes. |
| Adebayo, Bolukale & Anagun (2025) | Nigeria | Internal macroeconomic stability factors and economic growth | Fiscal deficits, inflation, macroeconomic stability indicators, GDP | Advanced econometric techniques | Fiscal discipline is crucial for sustaining economic growth in the face of macroeconomic instabilities. |
| Ogunjimi (2019) | Nigeria | Public debt and its impact on investment | Public debt, private investment, GDP | Regression analysis | High public debt levels crowd out private investment. |
| Nguyen & Darsono (2022) | Southeast Asia (comparative study) | Tax revenue, investment, and economic growth | Tax revenue, investment, GDP | Comparative econometric analysis | Efficient tax revenue generation supports growth by fostering higher levels of investment. |
| Idolor & Raphael (2022) | Nigeria | Inflation rate, investment and economic growth | Inflation rate, investment, GDP | Empirical analysis | Inflation undermines the positive effects of investment on growth. |
| Keji (2021) | Nigeria | Human capital and economic growth | Education, human capital, GDP | Panel data analysis | Investments in human capital drive long-term economic growth. |
| Forrest (2019) | Nigeria | Politics and economic development | Political stability, fiscal policies, GDP | Qualitative and quantitative methods | Political instability exacerbates the negative impacts of fiscal deficits on growth. |
| Ilugbusi et al. (2020) | Nigeria | Financial liberalization and economic growth | Financial reforms, GDP, fiscal deficits | Panel data analysis | Financial liberalization can mitigate adverse effects of deficits if reforms are well-implemented. |
| Berembo & Igonikon (2020) | Nigeria | Government revenue and economic growth | Tax revenue, GDP, fiscal discipline | Empirical analysis | Improved revenue mobilization can reduce the need for excessive deficit financing. |
| Darma, Magaji & Amase (2022) | Nigeria | Oil price shocks, government expenditure and economic growth | Oil price, government expenditure, GDP | Econometric modeling | Oil price shocks significantly influence government expenditure and overall economic growth. |
| Adejumo (2020) | Nigeria | Environmental quality vs. economic growth | Environmental quality, public expenditure, GDP | Empirical analysis | Aligning environmental quality with public spending can yield sustainable growth. |
| Matthew et al. (2021) | Nigeria | Tourism, foreign exchange earnings and economic growth | Tourism earnings, foreign exchange, GDP | Interaction effect analysis | Increased foreign exchange earnings can counterbalance some negative fiscal impacts. |
| Ehigiamusoe & Samsurijan (2021) | Nigeria | Finance–growth nexus and macroeconomic stability | Fiscal deficits, financial development, GDP | Critical survey with econometric analysis | Sound fiscal policies foster a stable financial environment that supports growth. |
| Ayenew (2022) | Sub-Saharan Africa | Impact of foreign financial inflows on economic growth | Foreign inflows, fiscal deficits, GDP | Panel data analysis | Foreign inflows boost growth if coupled with prudent fiscal management. |
| Olorogun, Salami & Bekun (2022) | Nigeria | FDI, financial development and economic growth | FDI, financial development, GDP | Econometric modeling | A robust financial system helps mitigate the negative impacts of fiscal deficits by attracting FDI. |
| Manasseh et al. (2022) | Sub-Saharan Africa | External debt, governance and economic growth | External debt, governance indicators, GDP | Panel data analysis | Effective governance can reduce the adverse effects of high external debt on growth. |
| Nosike (2019) | Nigeria | Government spending on agriculture and output growth | Government spending (agriculture), agricultural output, GDP | Regression analysis | Targeted fiscal spending in agriculture can stimulate sectoral growth. |
| Adelowokan et al. (2019) | Nigeria | Unemployment, poverty and economic growth | Unemployment, poverty, GDP, fiscal deficits | Econometric analysis | Fiscal imbalances indirectly exacerbate unemployment and poverty, thereby hindering growth. |
| Hilton (2021) | Developing economies | Public debt and economic growth | Public debt, GDP, fiscal deficits | Cross-sectional analysis | There exists a threshold beyond which public debt becomes detrimental to growth. |
| Mohsin et al. (2022) | Global (with implications for Nigeria) | Technological progress, renewable energy and green economic growth | Technological progress, renewable energy, GDP, fiscal deficits | Empirical analysis | Investments in technology and renewable energy can offset some negative effects of fiscal deficits. |
| Jibir & Aluthge (2019) | Nigeria | Determinants of government expenditure | Government revenue, fiscal deficits, GDP | Econometric modeling | Revenue mobilization is a critical determinant of government spending patterns. |
| Orisadare & Fasoye (2022) | Nigeria | Effect of value-added tax on economic growth | VAT, GDP, government revenue | Econometric analysis | A well-structured VAT system can enhance revenue and reduce reliance on deficit financing. |
| Dey & Tareque (2020) | Nigeria | External debt and stable macroeconomic policies | External debt, fiscal policies, GDP | Econometric modeling | Stable macroeconomic policies help cushion the negative effects of high external debt levels. |
| Afolabi (2022) | Nigeria | Financial development, trade openness and economic growth | Financial development, trade openness, GDP | Panel data analysis | A developed financial system enhances growth despite fiscal deficits. |
| Edo, Osadolor & Dading (2020) | Nigeria/SSA | External debt, export performance and economic growth | External debt, export performance, GDP | Econometric analysis | Excessive external debt is associated with declining export performance, which restrains growth. |
| Adefolake & Omodero (2022) | Nigeria | Tax revenue and economic growth | Tax revenue, GDP, fiscal discipline | Empirical analysis | Increasing tax revenue can reduce the dependency on deficit financing and support growth. |
| Ohonba & Ogbeide (2023) | Nigeria | Impact of insurance sector development on economic growth | Insurance sector development, GDP, fiscal deficits | Regression analysis | A developed insurance sector provides an alternative source of financing that can reduce fiscal vulnerabilities. |

Table 2.1: Summary of Empirical Literature Reviewed

**2.5 Identified Gap in Empirical Literature**

Despite the breadth of research conducted on the nexus between fiscal deficits, government debt, and economic growth in Nigeria, several gaps remain that justify further investigation. First, many studies have predominantly focused on the isolated effects of either external or domestic debt on growth. However, there is limited research that comprehensively evaluates the combined effects of both forms of debt within the same analytical framework (Didia & Ayokunle, 2020; Ogunjimi, 2019). Second, while numerous empirical studies have examined the inflationary impact of fiscal deficits, few have systematically explored the mediating role of government expenditure patterns—specifically, the differential impacts of recurrent versus capital expenditure—on the relationship between budget deficits and economic growth (Samuel & Oruta, 2021; Onifade et al., 2020).

Additionally, although theoretical models provide robust predictions regarding the short-term stimulative effects and long-term negative consequences of deficit financing (Olatunji & Hassan, 2022; Ajayi & Edewusi, 2020), empirical evidence in the Nigerian context is mixed. Several studies have indicated that moderate levels of public debt can enhance growth, yet others caution that beyond a certain threshold, the adverse effects become more pronounced (Yusuf & Mohd, 2021; Fasanya et al., 2021). There is a need for a more nuanced analysis that identifies the threshold levels at which budget deficits and associated borrowing shift from being growth-enhancing to growth-inhibiting.

Furthermore, the role of macroeconomic stability in moderating the impact of fiscal deficits has been addressed in studies examining inflation and financial development (Ehigiamusoe, Lean, & Chan, 2020; Adebayo, Bolukale, & Anagun, 2025). However, research that integrates macroeconomic stability variables—such as exchange rate volatility and political uncertainty—with fiscal variables remains scant. This gap is particularly pertinent in Nigeria, where political and economic uncertainties have a pronounced effect on fiscal outcomes (Forrest, 2019).

Moreover, although there is emerging literature on the potential of financial liberalization and technological progress to mitigate fiscal imbalances (Ilugbusi et al., 2020; Mohsin et al., 2022), the direct influence of these factors on the budget deficit–growth relationship has not been fully investigated. For instance, while some studies acknowledge that foreign direct investment (FDI) and financial development can offset the negative impacts of fiscal deficits (Olorogun, Salami, & Bekun, 2022), there remains an important empirical gap in understanding how these external financing sources interact with domestic fiscal policies.

Finally, few studies have provided a long-run analysis that captures the evolution of Nigeria’s fiscal policy environment over an extended period—from 1993 to 2023. Given the dynamic nature of fiscal policies, especially in an oil-dependent economy, there is a pressing need for a comprehensive study that accounts for structural breaks, policy shifts, and exogenous shocks. Such a longitudinal approach will offer policymakers a clearer understanding of how sustained fiscal imbalances have shaped Nigeria’s economic trajectory over the past three decades.

**CHAPTER THREE**

**RESEARCH METHODOLOGY**

**3.1 Research Design**

This study adopts a quantitative research design using time-series data to investigate the relationship between budget deficits and economic growth in Nigeria over the period 1993–2023. The design is both descriptive and explanatory in nature, aiming to provide empirical evidence on how fiscal imbalances influence key macroeconomic indicators such as GDP, government expenditure, inflation, and debt levels. Secondary data will be collected from reputable sources, including government reports and international databases, ensuring data reliability and consistency (Yusuf & Mohd, 2021; Olatunji & Hassan, 2022).

The study’s design allows for an in-depth analysis of the long-run relationship among the selected variables, employing advanced econometric techniques to account for issues like non-stationarity and structural breaks. This approach is consistent with previous research that utilized time-series methods to examine fiscal policy impacts in Nigeria (Samuel & Oruta, 2021; Fasanya et al., 2021).

**3.2 Theoretical Framework**

The theoretical framework for this study is anchored on both Keynesian and neoclassical economic theories, which collectively suggest that fiscal policy decisions—particularly those related to budget deficits—have profound effects on economic growth. According to Keynesian theory, deficit financing can stimulate aggregate demand and, in turn, boost GDP, particularly during periods of economic downturn (Olatunji & Hassan, 2022). However, persistent and excessive deficits may lead to higher interest rates, inflation, and crowding-out effects that hinder private investment (Samuel & Oruta, 2021).

In contrast, neoclassical perspectives stress the importance of sustainable fiscal policies, emphasizing that long-term growth is undermined by fiscal imbalances that increase debt servicing burdens and reduce investor confidence (Ajayi & Edewusi, 2020). This study’s framework integrates these perspectives by considering the roles of government expenditure (disaggregated into recurrent and capital components), inflation, and both external and domestic debt in determining the trajectory of Nigeria’s economic growth. By establishing a comprehensive link among these variables, the framework provides the theoretical basis for the empirical model to be estimated in subsequent sections (Fasanya et al., 2021; Omodero & Alpheaus, 2019).

**3.3 Model Specification**

The empirical model is designed to capture the dynamic relationship between Nigeria’s economic growth and key fiscal variables, particularly focusing on the impact of budget deficits.

The baseline model is specified as:

**GDPt=β0+β1BDt+β2GEt+β3INFt+β4EDt+β5DDt+ϵt**

where:

GDPt​ represents the Gross Domestic Product at time ttt.

BDt denotes the budget deficit as a percentage of GDP at time ttt.

GEt​ is the level of government expenditure (which may be further disaggregated into capital and recurrent expenditure) at time ttt.

INFt​ stands for the inflation rate at time ttt.

EDt​ represents external debt, and DDt represents domestic debt at time t.

ϵt is the error term capturing other influences not included in the model.

**3.3.1 A Priori Expectations**

Based on the theoretical literature, the following expectations are posited for the model’s coefficients:

**Budget Deficit (β1):** It is anticipated that a higher budget deficit, if financed unsustainably, will have a negative impact on GDP growth in the long run due to increased borrowing costs and inflationary pressures (Yusuf & Mohd, 2021; Fasanya et al., 2021).

**Government Expenditure (β2):** When directed toward capital investments, government expenditure is expected to have a positive effect on growth. However, if expenditure is largely recurrent without corresponding productive investments, its impact may be neutral or negative (Samuel & Oruta, 2021).

**Inflation (β3):** A higher inflation rate is generally expected to have a negative effect on economic growth as it erodes real incomes and diminishes purchasing power (Adaramola & Dada, 2020; Idolor & Raphael, 2022).

**External Debt (β4) and Domestic Debt (β5):** While moderate levels of debt can finance growth-enhancing projects, excessive reliance on external or domestic borrowing is likely to crowd out private investment and dampen GDP growth (Omodero & Alpheaus, 2019; Didia & Ayokunle, 2020).

**3.3.2 Model Justification**

The specified model is justified on several grounds. First, it integrates key fiscal variables identified in the literature as central to understanding Nigeria’s economic performance. Previous studies have demonstrated that fiscal deficits, when combined with factors such as inflation and debt accumulation, have a complex effect on growth (Olatunji & Hassan, 2022; Fasanya et al., 2021).

Second, the model’s functional form allows for the estimation of both short-run and long-run relationships among the variables. Given the time-series nature of the data, techniques such as cointegration and error correction modeling (ECM) are appropriate to address issues of non-stationarity and to capture long-run equilibria (Onifade et al., 2020).

Finally, the model is designed to test the a priori expectations derived from both Keynesian and neoclassical theories, providing a comprehensive view of how fiscal policy variables interact to influence economic growth. This holistic approach is supported by empirical evidence from earlier studies that have employed similar specifications in the Nigerian context (Yusuf & Mohd, 2021; Samuel & Oruta, 2021).

**3.4 Estimation Techniques**

Given the long-run time-series data spanning 1993 to 2023, the study employs several econometric techniques to ensure robust estimation and inference:

**Unit Root Tests:** To examine the stationarity properties of the time-series data, tests such as the Augmented Dickey-Fuller (ADF) and Phillips-Perron (PP) tests will be applied.

**Cointegration Analysis:** To determine whether a long-run equilibrium relationship exists among the variables, Johansen cointegration tests will be conducted.

**Error Correction Model (ECM):** In the presence of cointegration, ECMs will be used to capture both the short-run dynamics and the speed of adjustment toward long-run equilibrium.

**Ordinary Least Squares (OLS):** As a robustness check, OLS regression may be used where appropriate.

**Vector Autoregression (VAR):** To explore the dynamic interactions among the variables and examine impulse response functions, a VAR approach may also be considered (Fasanya et al., 2021; Onifade et al., 2020).

These techniques are chosen to address common issues in time-series analysis—such as non-stationarity, endogeneity, and structural breaks—ensuring that the empirical results are both consistent and reliable.

**3.5 Sources of Data**

The study relies on secondary data drawn from multiple reputable sources to ensure comprehensive coverage of the macroeconomic indicators:

**Central Bank of Nigeria (CBN):** Annual Statistical Bulletins and other financial reports published by the CBN will provide data on GDP, government expenditure, inflation rates, and debt figures.

**National Bureau of Statistics (NBS):** The NBS offers detailed datasets on macroeconomic variables including GDP, inflation, and government fiscal reports.

**Ministry of Finance, Nigeria:** Fiscal policy reports and budget documents from the Ministry will be used to obtain information on budget deficits and public expenditure.

**International Databases:** Supplementary data will be sourced from the World Bank’s World Development Indicators (WDI) and the International Monetary Fund (IMF) reports, particularly for cross-verification and to fill any data gaps.

**Other Relevant Reports:** Additional fiscal and economic reports from institutions such as the Nigerian Economic Summit Group (NESG) may also be utilized.

The data will cover an annual frequency for the period 1993–2023, providing a sufficient sample size for robust econometric analysis (Yusuf & Mohd, 2021; Olatunji & Hassan, 2022).

**3.6 Description of Data**

The dataset employed in this study comprises annual observations from 1993 to 2023 and includes the following variables:

**Gross Domestic Product (GDP):** Measured in constant prices to reflect real economic growth. GDP figures will serve as the dependent variable in the empirical model.

**Budget Deficit:** Expressed as a percentage of GDP, this variable reflects the extent to which government expenditure exceeds revenue. It is a key independent variable in the study.

**Government Expenditure:** Disaggregated into capital and recurrent expenditure, government spending data will be collected to assess its differential impact on growth.

**Inflation Rate:** Measured as the annual percentage change in the Consumer Price Index (CPI). This variable is critical for capturing the inflationary effects of fiscal deficits.

**External Debt:** Data on external borrowing, often expressed as a percentage of GDP, will be collected to examine its role in financing fiscal deficits.

**Domestic Debt:** Similar to external debt, domestic borrowing data (expressed in absolute terms or as a percentage of GDP) will be used to evaluate its impact on economic performance.

Each variable is carefully defined and sourced from the aforementioned institutions to ensure accuracy and consistency. Data preprocessing will include adjustments for missing values and outliers, where necessary, to maintain the integrity of the econometric analysis.

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