

The Nexus between Fiscal Deficit and Domestic Credit in Nigeria (1981-2017)

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Abstract. The continuous planned budget deficit in order to stimulate growth and reduce unemployment rate, among other goals was expected to bring about massive turnaround in the Nigeria economic fortune. On the contrary, fiscal deficit and debt has continue to worsen and cother macroeconomic variables like inflation, exchange rate, net export, savings and investment have all failed to improve. This study examined the nexus between fiscal deficit and domestic credit in Nigeria over the period of 1981 to 2017. The study based on descriptive survey research design utilised Keynesian approach in theoretical framework upon which an econometric model where domestic credit was the dependent variable while fiscal deficit, inflation and total debt were the independent variables. Annual time series data covering the period between 1981 and 2017 obtained from Central Bank of Nigeria Statistical Bulletin was utilised and the result was estimated through the Dynamic Ordinary Least Square (DOLS) technique. The result shows that fiscal deficit ($\beta = -0.001099$, $t = -8.110295$, $p < 0.05$) and inflation ($\beta = -0.029994$, $t = -5.614297$, $p < 0.05$) exert a significant negative effect on domestic credit in Nigeria while total debt ($\beta = 0.056289$, $t = 3.875317$, $p < 0.05$) showed a positive significant effect on domestic credit in Nigeria. The study submitted that fiscal deficit has a significant negative effect on domestic credit in Nigeria. Among others the study recommended that government should implement policy that

will enhance her revenue generation drive and cut down all her unproductive expenditure to stimulate a balanced budget.

Keywords: Fiscal deficit, Domestic credit, Debt, Inflation, Nigeria

1. Introduction

Every organisation irrespective of its nature, scope, forms, structure and objective require access to finance. One prominent source of business finance is bank credit. One of the core objective for the establishment of banks is credit advancement bring about by linking the surplus unit of the economy with the deficit unit for the purpose of providing a framework for access to credit to promote investment with the expected positive effect on economic development. The importance of credit in economic development cannot be over-emphasized, especially in the context of developing countries that are trapped in a web of poverty. Several theories attested to the over-riding importance of credit in breaking the grip of poverty, removing structural rigidities and promoting economic development. For instance, the “big push” theory contends that a high minimum amount of investment is required to overcome the obstacles of development in poor countries and to launch it on the part of progress (Amoo, Eboreime, Adamu & Belonwu, 2017). Government as an economic agent can raise funds internally through bank credit,

issuance of financial instruments, print more paper currencies, increase tax rate or use foreign reserve or from foreign sources in order to finance her budget when there is a shortfall between revenue and expenditure (Ayogoeze & Anidiobu, 2017). Deficit usually occurs as a result of government inability to match the tax revenue and expenditure (Paiko, 2012). Recourse to huge budget deficits may be an unavoidable policy objective if such deficits are effectively used to promote healthy macro economy (Aslam, 2016).

The financing of budget deficit through commercial bank borrowing is believed to crowd out private sector credit. It makes the commercial banks earn massive risk free returns, making them captive to hassle free profit making. This makes the commercial bank favour lending to the government at the expense of private investors an act which will then crowd-out in private sector credit. On the contrary, it has been argued that lending to the government increases the risk appetite of the banks and consequently banks may increase lending to private sector (Zaheer, Khaliq & Rafiq, 2017). To put this argument in proper perspective, the monetarists argued that increase in government expenditure may not have much effect on aggregate demand (AD), if they are offset by a decline in private investment due to increase in interest rate. The interest rate will increase if government spending is financed through borrowing. Since government is ready to borrow at any level of interest to finance its deficits, the pool of savings available for private investors will therefore decline, thus crowding out private investment (Ogunmuyiwa, 2011). Therefore, when fiscal deficits show a continuously increasing trend over a period, it can considerably reduce country's capacity to produce goods and services (Saleh, 2003).

In Nigeria large fiscal deficit over time probably have reduced the amount of loanable funds available to private investors through an increase in the interest rate. The increase in interest rate reduces the amount of money available in commercial banks to lend in the economy. Since there is large number of private firms that operate locally, an increase in interest rate may

result in reduction of firm size, thereby culminating in cutting the work force, inflation (if the budget deficit is financed through minting of money), low rate of industrialization, low aggregate demand and low economic growth (Ayogoeze & Anidiobu, 2017). The ushering of the civilian administration since 1999 after the prolonged period of the military interregnum was expected to reduce fiscal deficit, curtail the debt burden, reduce inflation to a permissible level and improve performance of other macroeconomic. Contrary to expectation, fiscal deficit and debt has worsened and coupled with the present global economic meltdown other macroeconomic variables like inflation, exchange rate, net export, savings and investment have all failed to improve (Ogunmuyiwa, 2011).

The controversy relating to budget deficits-macroeconomic variables nexus in the literature is yet to be resolved and therefore, remains inconclusive. Government budget deficit apparently is viewed as a major cause of macroeconomic instability particularly its crowding out effects, but most empirical findings do not entirely support this assumption as findings from various studies are mixed across countries. In light of this, studies seem to focus more on budget deficit-economic growth; while less emphasis has been put on its implication on private sector credit in Nigeria. It is against this background that this study examined the nexus between fiscal deficit and domestic credit in Nigeria. The study specifically analyse the trend of fiscal deficit and domestic credit, examine the relationship between fiscal deficit and domestic credit, examined the impact of fiscal deficit on domestic credit and investigate the extent of the relationship between fiscal deficit and domestic credit in Nigeria. The results of the study would informed policy decisions that provide solution to the the problem associated with deficit financing in Nigeria. The study would also add to the existing studies and provide a valuable source of reference material on fiscal deficit.

2. Literature Review

2.1 Conceptual Review

A budget is a framework for revenue and expenditure outlays over a specified period, usually a year. Budgeting can be seen as setting of expenditure promise and the weighing of alternatives. Hence it implies looking ahead and planning, since decisions involved in the process are of future orientation (Asaju, Adagba and Kajang, 2014). In this sense, budgeting involves the converting of the multi-year plan of operations into more exact short-term installments of inputs and outputs, usually for the year (Anyanwu, 1998). Deficit financing arises each time the government has budget deficit. However, for the economy to grow as planned in a budget, shortfall of revenue resulting from excess expenditure has to be financed by raising fund from other sources available to the government. Deficit financing can be seen as the practice of seeking to stimulate a nation's economy by increasing government expenditures beyond revenue sources (CBN, 2012). This means that deficit financing can be defined to mean financing undertaken by a corporation or government to make up for a shortfall in revenue. Government or corporation may undertake deficit financing in order to provide an economic stimulus (Ricahrd and Ogiji, 2016). Deficit financing is defined as government spending in excess of revenues which is financed by borrowing. Keynesian economist's theory states that deficit is financed in order to increase economic activity and reduce unemployment in a nation (Ricahrd and Ogiji, 2016).

According to FAO and World Bank (2001) define credit as the use of or possessing of fund and services without immediate payment. It is also referred to as the process of lending and borrowing money from financially able bodies e.g. banks, government and individuals. Pearce (2002) simply put that credit is the advancement of resources in money to household, firms and government with the understanding that repayment will be at a specified period of time. The credit term to be granted to any customer will depend on the norms and practices of the industry (Pandey, 2006). In the view of Ekezie (2007) banks are legally required to keep a fixed percentage of their deposits in cash and then, lend or invest the remaining amount. It is the

amount lent that actually leads to the credit creation process.

2.2 Theoretical Review

The theoretical foundation underlying the relationship between money supply, inflation and budget deficit is derived from aggregate demand and aggregate supply is is considered from the: The Monetarist Hypothesis (MH) and Fiscal Theory of the Price Level FTPL. The monetary hypothesis was pioneer by Milton, Friedman in 1956. While reflecting on the quantitative theory of money, it is argued in this hypothesis that if the nominal money supply differs from the desired real balances at a given price level, it will translate into changes in that price level. Hence, the price level has to be fully flexible and determined exclusively by the exogenous nominal money supply. In relation to fiscal policy, the nominal money supply could change due to the use of seigniorage as a main source of financing for public expenditure, or as the result of an open market operation in which the central bank purchases interest-bearing government debt. The Fiscal Theory of the Price Level FTPL anchored by Sims (1999) and Woodford (1998a) integrates fiscal and monetary policies through the government inter-temporal budget constraint (GBC), which also is understood as a long-term solvency condition for public sector finances. The GBC is satisfied when the discounted value of the government's future primary surplus is larger than for equal to) the current nominal value of the public debt. Therefore, given a discount rate, if the discounted value of the primary surplus is lower than a predetermined level of nominal debt (both as a percentage of nominal GDP), the price level has to "jump" to equalize the GBC condition: i.e. the price level becomes the exclusive adjustment variable to maintain that condition.

2.3 Empirical Review: Fiscal Deficits and Domestic Credit

Several studies have linked budget deficit with macroeconomic variables. For instance, Descalzi and Neder (2017) focused on the impacts of inflation in Argentina, which can deteriorate the real income of families and, consequently, their

welfare. Additionally, the impacts would be different considering the exchange rate regime that is being applied. The study found a long run relationship between inflation, money issuing, nominal exchange rate and fiscal deficit, meaning that inflation, nominal exchange rate and the government imbalances are driven by the same trend. In another study, Devapriya and Chihashi (2012) examined the relationship and causal structure between government budget deficits, deficit financing sources, and inflation in United State of America (USA). Results of the study suggest that budget deficits and inflation have a positive relationship; at the same time, causality analysis suggests a bi-directional causal structure between budget deficits and inflation in US. Also this analysis suggests that the main determinants of inflation rate are budget deficits, growth of money supply, interest rates and the real exchange rate of the country. Furthermore, results suggest that domestic borrowings affect inflation more positively than foreign borrowings, also suggesting a bi-directional causal structure between domestic borrowings and inflation. In a similar vein, Shetta and Kamaly (2014) tested the lazy banking hypothesis for Egypt. According to this hypothesis, government borrowing crowds out private investment through its dampening effect on private credit. It was found that as the government issues more debt instruments to finance its deficit, banks shift their portfolio away from risky private loans and opt for lazy behavior characterized by a shrinking overall credit tilted more and more toward government debt-instruments. In addition, evidence shows that output growth positively impacts the willingness of the banking sector to extend more credit to both the government and the private sector. Finally, and consistent with the lazy bank model, impulse response functions show that the effect of a government borrowing shock is contractionary (as opposed to the effect of private credit shock which is slightly expansionary) with regard to the overall banking sector credit.

In a similar vein, Ahmad (2015) investigated the relation between Budget Deficit and Gross Domestic Product of Pakistan. The results of Granger causality test show that there is bi-

directional causality running from budget deficit to GDP and GDP to budget deficit. Also, Nkalu, (2015) investigated the effects of budget deficits on selected macroeconomic variables in Nigeria and Ghana using annual time-series data of both economies covering from 1970 to 2013. From the perspective of this study, the empirical findings demonstrated that budget deficit has statistically negative effects on interest rate, inflation, and economic growth thereby supporting the neoclassical argument in the literature that budget deficit slows growth of the economy through resources crowding-out. In another study, Sajjad , Khaliq and Muhammad (2017) investigate the impact of government borrowing from the scheduled banks on the credit to private sector in Pakistan, using monthly data from 1998:M6 to 2015:M12. The study find that a one percentage point growth in the government borrowing leads to 8 basis points crowding out of the private sector credit in four months. Albeit small, there is negative impact of government borrowing on the private sector credit. The results remain unchanged even after implementation of the interest rate corridor since August 2009.

In Nigeria, Osinubi and Olaleru, (2006) examined how the use of budget deficits as an instrument of stabilization. The results of the econometric analysis confirm the existence of the debt Laffer curve and the nonlinear effects of external debt on growth in Nigeria. The study concludes that if debt-financed budget deficits are operated in order to stabilize the debt ratio at the optimum sustainable level debt overhang problems would be avoided and the benefits of external borrowing would be maximized. In another study, Odionye and Uma (2013) examined the relationship between budget deficit and interest rate in Nigeria using Vector Error Correction model (VECM) for the period of 1970:1-2010:4. In the long run co-integrating equation, budget deficit reported a positive and significant impact on interest rate implying that a high budget deficit will increase interest rate in the country. The result supported the Keynesian proposition. Also the evidence from Johansen co-integration result indicates that there is a long run relationship between budget deficit and interest rate. In the same vein, Umeora (2013)

investigated the relationship that exists between the Government Deficit Spending and selected macroeconomic variables. The study concludes that Government Deficit Spending (GDS) has positive significant relationship with GDP. Government Deficit Spending also has positive significant relationship with Exchange Rate, Inflation, and Money Supply. Government Deficit has negative significant relationship with Lending Interest Rate and most likely crowd-out the private sector by raising the cost of funds. Deficit spending has been known to have adverse effects on the economy and government is advised to curtail excessive deficit spending. Similarly, Etim (2013) examined the impact of budget deficit and current account balance in the Nigeria economy, trend of budget deficit and current account balance and also the impact of selected macroeconomic variables on the current account. The result of the study shows that government expenditure on education has a positive impact on budget deficit while unemployment and government expenditure on health has negative impact on budget deficit. Also, Umeora and Ikeora (2016) investigated the effects of government fiscal deficits on money supply in Nigeria. The regression results show that government fiscal deficits have significant and negative effect on money supply and that inflation does not contribute significantly to money supply and fiscal deficits. Pairwise Granger Causality is that money supply granger cause fiscal deficits. In another study, Anyanwu, Christopher and Hu, (2017) examines the crowding out effect of government domestic borrowing using a panel data model for 28 oil-dependent countries over the period 1990-2012. The study find that a one percent increase in government borrowing from domestic banks significantly decreases the private sector credit by 0.22 percent and the lending rate by 3 basis points albeit insignificantly. This finding suggests that government domestic borrowing has resulted in the shrinking of private credit.

3. Methodology

This study follows the descriptive survey research design. The design was so selected because the research design allows the

description of the phenomenon being studied by addressing the question of what are the characteristics of the phenomenon under study.

3.1 Theoretical Framework

The framework of this study is built on the Keynesian school of thought that believes in short run analysis of current income as the sole determinant of consumption pattern of citizens. The Keynesian school of thought see deficit financing as a veritable tool for the achievement of economic objectives and also overcoming fluctuations that can affect any economy. Keynesian approach gives the result that an increase in the deficit brought about either by an increase in government spending or a reduction in taxes has the effect of raising or reducing consumption pattern through income (Fasoranti and Olamide, 2015). Therefore, the Keynesian national income identity model is expressed as follows;

$$Y = C + I + G \text{ -----}$$

----- (1)

Where;

Y = National income C = Consumption Expenditure I = Investment G = Government Expenditure. Consumption is the largest component of aggregate demand or expenditure and consumption theory expressed consumption as a function of disposable income:

$$C = f(Y_d) \text{ -----}$$

----- (2)

$$Y_d = Y - T \text{ -----}$$

----- (3)

Equation (2) in linear form

$$C = \alpha + \beta Y_d \text{ -----}$$

--- (4)

$$C = \alpha + \beta (Y - T) \text{ -----}$$

--- (5)

When government expenditure exceeds government revenue then there is a deficit and since we are interested in budget deficit (BDF) then;

$$C = f(BDF) \text{ -----}$$

-- (6)

3.2 Model Specification

This study rely on evidence from the theoretical framework and the study conducted by Sajjad,

Khaliq and Muhammad (2017) on whether government borrowing crowd out private sector credit where they made household consumption expenditure as the dependent variable and Budget deficit, Consumer price index, interest rate and Indirect tax as the dependent variables. However, their model was modify in line with the objective by replacing consumption expenditure with domestic credit as the dependent variable and will making use of fiscal deficit, inflation and total debt as the explanatory variables. Therefore the model to be adopted in this work is as formulated below:

The model is specified as follows:
 $DCR = f(FD, INFL, DBT) \dots\dots\dots (1)$

Where:
 DCR = Domestic credit
 FD= Fiscal deficit
 INFL= Inflation
 DBT= Total Debt

The transformation of the model showing the relationship between fiscal deficit and trade deficit in the dynamic ordinary least square is shown as follows

$$DCR = X_t M^t + \sum_{i=m}^{i=m} \phi_l \Delta FD_{t=i} + \sum_{i=m}^{i=m} \psi_l \Delta INFL_{t=i} + \sum_{i=m}^{i=m} \theta_l \Delta DBT_{t=1} + \varepsilon_t - - (3)$$

Where: $M = [c, \alpha, \beta, \gamma]$, $X = [1, FD_t, INFL_t, DBT_t]$ and m, n and l are the lengths of leads and lags of the regressors. Suppose that GMS has been found to be $I(1)$ and at least some of the RHS variables are $I(1)$ or $I(0)$, then DOLS are obtained by regression analysis of the above equation.

The expected sign of the coefficients of the explanatory variables is summarized in terms of

4. Results

4.1.1. Descriptive Analysis

The result of the Jarque-Bera test of normality is presented in table 1.

differentials as follows: Fiscal deficit is expected to exert a positive effect on domestic credit i.e $\frac{\partial DCR}{\partial FD} > 0$, In line with a priori theoretical expectation inflation rate is expected to exert a positive effect on domestic credit lance i.e $\frac{\partial DCR}{\partial INFL} > 0$, In line with a priori theoretical expectation total debt is expected to exert a positive effect on domestic credit i.e $\frac{\partial DCR}{\partial DBT} > 0$

3.3 Sources of Data, Measurement and Estimation Technique

Given the nature of the models it is imperative that the data which permit the estimation of the stochastic equations representing the effect of fiscal deficit on trade deficit in Nigeria can be collected. Time series data were used for the study and they are purely secondary data. The data series covered the periods between 1981 and 2017. The data were obtained from the publication of central Bank of Nigeria, (CBN Annual Report), Statistical Bulletin, National Account and Bureau of Statistics.

The Dynamic ordinary least square (DOLS) cointegration approach is employed in this study in the estimation. The estimated model of this study is evaluated using based on a priori criterion, statistical test, and economic second order test. The Johansen Method, being a full information technique, is exposed to the problem that parameter estimates in one equation are affected by any misspecification in other equations. The Stock Watson Method is, by contrast, a robust single equation approach which corrects for regressor endogeneity by the inclusion of leads and lags of first differences of the regressors, and for serially correlated errors by a GLS procedure. In addition it has the same asymptotic optimality properties as the Johansen distribution (Al-zzam, and Hawdon, 1999).

Table 1: Descriptive Statistics

	DCR	FD	INFL	DBT
Mean	30237.14	-269.7922	19.34444	11.85806
Median	22060.99	-67.71500	12.21000	10.74500
Maximum	69023.93	32.05000	72.73000	23.99000
Minimum	13211.00	-1557.790	3.230000	4.700000
Std. Dev.	17307.46	427.4273	17.31618	5.072531
Skewness	0.976928	-1.658047	1.609073	0.850736
Kurtosis	2.583250	4.397248	4.577906	2.977269
Jarque-Bera	5.986846	19.42317	19.26938	4.343281
Probability	0.050116	0.000061	0.000065	0.113990
Sum	1088537.	-9712.520	696.4000	426.8900
Sum Sq. Dev.	1.05E+10	6394292.	10494.76	900.5700
Observations	36	36	36	36

Source: Authors' computation, 2019

The values of the Jarque-Bera statistic show that except for total debt all the series are normally distributed since the p-values of all the series are statistically significance at 5% level of significant. Hence, the result shows that while domestic credit, fiscal deficit and inflation are normally distributed, total debt is not

4.1.2 Correlation Matrix

Table 2: Correlation Analysis Matrix

	DCR	FD	INFL	DBT
DCR	1			
FD	-0.887061	1		
INFL	-0.333312	0.283156	1	
DBT	-0.360807	0.356474	0.496043	1

Source: Authors' Computation, 2019

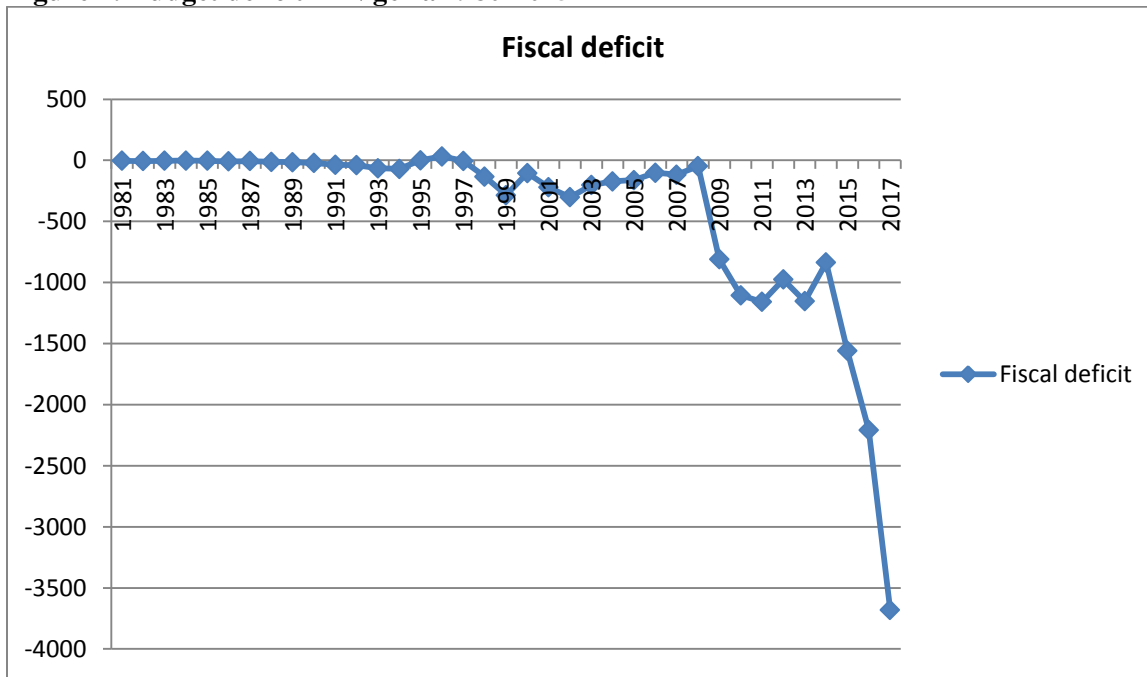
The results of the correlation analysis as presented in Table 2 shows that the correlation coefficients for the relationship among the variables domestic credit, fiscal deficit and inflation are below 0.95 indicating the absence of the problem of multicollinearity among the independent variables.

4.2 Trend Analysis

4.2.1 Trend of Fiscal Deficit in Nigeria 1981-2017

The trend of fiscal deficit in Nigeria as stated in the first objective is presented using the line graph as follows:

Figure 1: Budget deficit in Nigeria 1980-2015

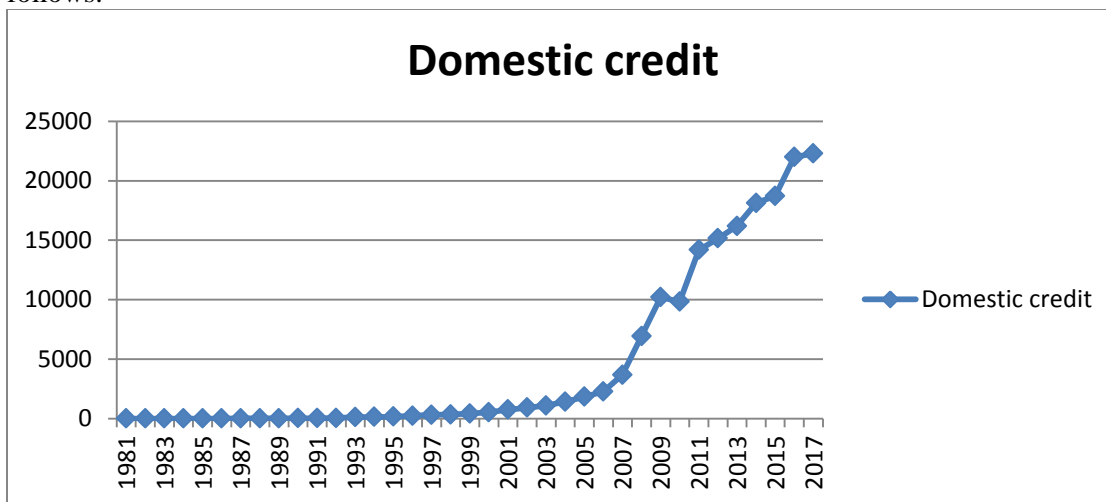


Source: Authors’ computation, 2019

The trend analysis of fiscal deficit as shown in figure 1 indicates that between 1981 to 1993 the level of fiscal deficit in Nigeria was nearly zero up till 1997 which implies that over these years government have ensure equality between her planned expenditure and expected revenue to finance the expenditure. This further implies that, the prevalent economic condition over the period do not warrant the need for government to finance her expenditure by external sources. However, from 1997 to 2008 fiscal deficit expand a bit and there was later a dramatic upsurge from this period to 2011 after which it leveled up from 2010 to 2014. Since 2014, there have been a soaring continuous rise in Nigeria fiscal deficit and this is evident in incessant rise in her external debt profile since deficit is fiancé by borrowing

4.2.2 Trend of Domestic Credit in Nigeria 1981-2017

The trend of domestic credit in Nigeria as stated in the first objective is presented using the line graph as follows:



Source: Authors’ computation, 2019

The trend analysis as shown in figure 2 shows domestic credit profile in Nigeria from 1981 to 2001 as nearly zero which implies that the credit provided for the private sector during the period was very low. This might have resulted from the fact that the Nigeria financial system during those period was still at puberty stage of development and even the development of private business activities. However, from 2002 to 2017 domestic credit soar-up.

4.2.2 Empirical Result

The result of Dynamic Ordinary Least Squares (DOLS) is presented in table 3:

Table 3: Dynamic Ordinary Least Squares (DOLS) Regression

Variable	Coefficient	Std. Error	t-Statistic	Prob.
FD	-0.001099	0.000136	-8.110295	0.0000
INFL	-0.029994	0.005342	-5.614297	0.0000
DBT	0.056289	0.014525	3.875317	0.0013
*C	9.859752	0.155327	63.47750	0.0000
R-squared	0.936242			
Adjusted R-squared	0.876469			
Long-run variance	0.032893			

Source: Authors’ computation, 2019

The result as presented in table 4 on the basis of student t-test of significance of the parameter estimates indicates that fiscal deficit ($\beta = -0.001099$, $t = -8.110295$, $p < 0.05$) and inflation ($\beta = -0.029994$, $t = -5.614297$, $p < 0.05$) exert a significant negative effect on domestic credit in Nigeria while total debt ($\beta = 0.056289$, $t = 3.875317$, $p < 0.05$) showed a positive significant effect on domestic credit in Nigeria. In line with a priori expectation the effect of fiscal deficit and inflation on domestic credit is negative, that is a unit increase in fiscal deficit and inflation bring about 1% and 3% decrease in domestic credit in Nigeria respectively. Against a priori expectation the effect of debt on domestic credit was positive, that is a unit increase in debt on the average brings about 6% increase in domestic credit in Nigeria.

5. Discussion, Conclusion and Recommendations

The result of the analysis at using the line graph shows that over the entire period there is a significant variation in the trend of budget deficit and macroeconomic performance in Nigeria. The Dynamic Least Squares result shows that fiscal deficit ($\beta = -0.001099$, $t = -8.110295$, $p < 0.05$) and inflation ($\beta = -0.029994$,

$t = -5.614297$, $p < 0.05$) exert a significant negative effect on domestic credit in Nigeria while total debt ($\beta = 0.056289$, $t = 3.875317$, $p < 0.05$) showed a positive significant effect on domestic credit in Nigeria.

By and large our result established that fiscal deficit has a significant negative effect on domestic credit in Nigeria. This result corroborated the findings in the study conducted by Umeora and Ikeora (2016) on the effects of government fiscal deficits on money supply in Nigeria. The regression results show that government fiscal deficits have significant and negative effect on money supply and that inflation does not contribute significantly to money supply and fiscal deficits. The result was in line with the findings of Anyanwu, Christopher and Hu, (2017) on the crowding out effect of government domestic borrowing using a panel data model for 28 oil-dependent countries over the period 1990-2012. The finding suggests that government domestic borrowing has resulted in the shrinking of private credit. The result agree with the findings of Sajjad , Khaliq and Muhammad (2017) on the impact of government borrowing from the scheduled banks on the credit to private sector in Pakistan, using monthly data from 1998:M6 to

2015:M12. The study found that there is negative impact of government borrowing on the private sector credit. It was also in line with Umeora (2013) on the relationship that exists between the Government Deficit Spending and selected macroeconomic variables. The study concludes that government deficit has negative significant relationship with Lending Interest Rate and most likely crowd-out the private sector by raising the cost of funds. Deficit spending has been known to have adverse effects on the economy and government is advised to curtail excessive deficit spending.

5.1 Conclusion

By and large the result established that fiscal deficit has a significant negative effect on domestic credit in Nigeria.. This by implication suggests that the persistent practice of fiscal deficit in Nigeria retard domestic credit which may be due largely to the failure of the government to channel such deficit into capital investment which will stimulate growth.

5.2 Recommendations

Following the empirical findings, the following recommendations are made for effective policy formulations:

- Government should implement policy that will enhance her revenue generation drive and cut down all her unproductive expenditure to stimulate a balanced budget.
- Government should encourage the consumption of locally made products, the policy makers also have to implement a policy that will encourage local production and stimulate the patronage of local consumers,
- There should be public private participation in critical sectors of the Nigerian economy such as in power and transport in order to accelerate the rate of development in Nigeria,
- There should be a high degree of transparency and accountability in government spending and that government capital expenditure should

be directed mainly to current productive economic activities in order to stimulate activities in the economic sectors.

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