DEFICIT FINANCING OUTCOMES AND THE GROWTH PERFORMANCE OF THE NIGERIAN ECONOMY

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ABSTRACT

This study examines deficit financing outcomes and the growth performance of the Nigerian economy between 1975 and 2024, focusing on the dynamic effects of fiscal and monetary variables on economic growth. The main objective was to investigate how deficit financing indicators including public debt growth, debt servicing, government expenditure growth, price level increase, and interest rate change affect Nigeria's GDP growth rate. The study identified a significant research gap as previous works largely emphasized debt-related variables such as domestic and external debts while neglecting broader proxies of deficit financing. Unlike earlier studies, including Umeora (2013), which failed to capture the multidimensional nature of deficit financing, this research integrated additional macroeconomic variables such as inflation and interest rates as control variables. Adopting a quantitative ex post facto research design, the study utilized secondary time-series data sourced from the Central Bank of Nigeria Statistical Bulletin (2024), covering 1975–2024. The data were transformed using first differences and logarithms to ensure consistency and reliability. Empirical results from long-run estimations revealed that while government expenditure growth exerts a positive and significant impact on economic growth, public debt growth, debt servicing, interest rate changes, and price increases have negative and significant effects. This suggests that fiscal expansion can stimulate growth when efficiently managed, but excessive borrowing, rising debt obligations, and inflationary pressures constrain long-term performance. The study concludes that Nigeria's economic challenge lies not in deficit

financing itself, but in its inefficient application and poor debt management. It recommends that government borrowing should be confined to productive, revenue generating projects, coupled with fiscal discipline, transparent governance, inflation control, and supportive monetary policies to achieve sustainable economic growth and macroeconomic stability.

Keywords: Deficit Financing, Public Debt, Government Expenditure, Inflation, Economic Growth

1. Introduction

Economic authorities in every nation formulate fiscal policies that carry direct implications for public revenue, borrowing, and expenditure. These intentions are codified annually in the national budget, a financial statement projecting expected receipts against proposed expenditure for a given fiscal year (Okoro, 2011). The budget is not merely an accounting exercise; it is the principal instrument through which government signals its developmental priorities and attempts to steer the trajectory of the economy. A budget deficit arises whenever projected expenditure exceeds anticipated revenue, compelling governments to seek supplementary financing to close the resulting gap. Governments frequently accept this imbalance deliberately, particularly where deficit spending is directed toward asset creation, infrastructural expansion, or specific developmental objectives. In advanced economies, deficit financing has historically served as a countercyclical tool, deployed to stimulate aggregate demand and restore output during periods of depression. In less developed economies, however, the pursuit of resource mobilisation for development has made deficit financing an almost permanent feature of fiscal management rather than an occasional stabilisation device (Bhatia, 2006).

Government typically closes a fiscal gap through several channels: the creation of new money, which expands the money supply; borrowing from the domestic banking system and non-bank public through treasury bills and bonds; and, where domestic sources prove inadequate, external borrowing. Each channel carries distinct consequences for interest rates, public debt accumulation, and the growth trajectory of government expenditure. Deficit financing therefore functions as a double-edged instrument: it expands government's capacity to inject demand into the economy, yet it simultaneously exposes the economy to debt accumulation, inflationary pressure, and distortion of the interest rate structure.

Deficit financing is not unique to Nigeria. Economies such as Sweden, the United Kingdom, and the United States have long histories of running budget deficits as instruments of fiscal management, well theorised within the Keynesian tradition of countercyclical public spending. In the Nigerian context, deficit budgeting can be traced to 1961, shortly after independence, marking the commencement of a fiscal culture that

has persisted, in varying intensity, for more than six decades. In the immediate post-independence period, deficit spending appeared justifiable given the pressing need to expand infrastructure, institutions, and productive capacity in a newly independent economy, an orientation that persisted through the 1970s, a decade dominated by post-civil-war reconstruction. The oil boom of the early 1970s temporarily eased fiscal pressure, but the accompanying surge in revenue was matched by an expansion in public expenditure that was not always productively deployed, and the mismanagement of that boom precipitated a return to deficit budgeting from 1975 onward. When crude oil earnings weakened in 1981 and continued to decline into 1982, the fiscal cushion that oil revenue had provided evaporated, forcing government to resume heavy borrowing after depleting accumulated reserves. That resumption of deficit financing in the early 1980s set in motion a pattern of borrowing-financed fiscal expansion that has, with cyclical variation, continued unabated into the present era (Isenmila & Okolie, 2008; Oluba, 2008).

The relationship between fiscal deficits and macroeconomic performance, particularly output growth, money supply behaviour, and unemployment, remains one of the most actively contested subjects in both developed and developing-country policy discourse. Deficit financing, understood as the excess of current expenditure over current income within a fiscal year (Mabrouk et al, 2026), acquires particular significance in economies such as Nigeria's, where the public sector plays a dominant role in aggregate economic activity, and continuous expansion of government spending without a commensurate widening of the revenue base has historically translated into persistent annual deficits and a corresponding accumulation of public debt (Oladipo & Akingbola, 2011). An expanding government bureaucracy, the enormous capital requirements of basic infrastructure, and a narrow, oil-dependent revenue base have all reinforced this pattern, whose theoretical foundation traces to the Keynesian-inspired expenditure model Nigeria adopted in its post-independence development strategy, under which deficit-financed expenditure was expected to crowd in private investment and accelerate growth (Oladipo & Akingbola, 2011). The practical consequence has been an economy in which expansionary monetary policy, rising consumption, and the steady growth of internal and external debt have reinforced one another, each widening the annual fiscal deficit in turn, since a persistently narrow revenue base relative to the scale of expenditure carries serious implications for the sustainability of the budget balance (Dalyop, 2010).

The severity of government deficits following the civil war culminated in the introduction of the Structural Adjustment Programme (SAP) in 1986, a reform effort attributable partly to the fiscal legacy of post-war reconstruction and partly to the recognition that government exercised excessive direct influence over economic activity through fiscal deficits. Although persistent deficits were widely understood to carry adverse macroeconomic consequences, successive governments continued to view deficit spending as indispensable to sustaining economic activity, and the hope that SAP would

restructure the economy sufficiently to reduce reliance on deficit financing has not materialised, as deficits have continued on a broadly upward trajectory since. The naira devaluation under SAP altered the domestic currency value of Nigeria's external obligations, contributing to a sharp escalation in the debt-to-GDP ratio through the late 1980s and early 1990s, even before new borrowing is considered. The scale of this expansion is evident in the growth of deficit financing itself: overall fiscal deficits rose from roughly N1,975.20 million in 1980 to N12,160.10 million by 1988 and N22,116.90 million by 1990, before climbing to N13,339.30 million in 1998 and N301,401.60 million in 2002, moderating briefly between 2004 and 2007, before resuming an upward march that carried the deficit to N7,523.71 billion by 2022 (CBN, 2009, 2023). Only in 1995 did the country record a budget surplus, of roughly N1,000 million, an exception that underscores how deeply embedded deficit budgeting has become in Nigeria's fiscal culture over the review period.

The macroeconomic consequences of fiscal deficits for growth, money supply, interest rates, and inflation remain among the most widely deliberated issues confronting policy makers, and the empirical evidence on the direction of these effects is far from settled. Economists working within the Keynesian tradition argue that deficit spending is a necessary and beneficial policy response during recessions, with Anyanwu and Oaikhenan (1995) finding that it contributes positively to economic growth, while Dalyop (2010) finds the opposite. A similar lack of consensus characterises the monetary literature: Onwioduokit (1999) associates deficit spending with inflationary pressure, a position at odds with Omoke and Oruta (2010) and with Sill (2005), both of whom find no causal link between money creation and inflation, whereas Egwaikhide, Chete, and Falokun (1994) identify domestic money supply, growth, and exchange rate movements as relevant channels linking deficit spending to inflation in Nigeria. On interest rates, conventional theory holds that deficits need not crowd out private credit unless financing becomes excessive, yet Obi and Abu (2008) find that government deficits do, in practice, out-compete the private sector for loanable funds in Nigeria. Comparable ambivalence is evident beyond Nigeria's borders: Kalu et al. (2025) finds deficit spending detrimental to the Czech Republic, while Aisen and Hauner (2008) suggest budget deficits may be insignificant in developed economies but significant, and country-specific, among developing ones.

It is against this backdrop of conflicting empirical evidence, and a fiscal history marked by recurrent, escalating, and largely unresolved deficits, that the problem motivating this study becomes apparent. Large and persistent fiscal deficits carry the theoretical risk of eroding national savings, constraining domestic investment, and increasing reliance on external borrowing; a depressed level of national savings, in turn, tends to elevate inflation and domestic interest rates, crowding out private investment as firms face a higher cost of capital. The resulting contraction in investment carries direct implications for employment, feeding through into lower national output, a widening

trade deficit, mounting balance-of-payments pressure, and, ultimately, a decline in aggregate welfare. Nigerians have, over the decades, witnessed precisely this pattern of adverse oscillation in national economic performance, most visibly in the historical episode of the 1980s, when the volatility and eventual collapse of crude oil export earnings precipitated a debt crisis that laid bare the underlying fragility of the country's development trajectory, a decline traceable in large part to the poor fiscal management of the period, with deficits widening modestly through the 1970s before accelerating sharply from the 1980s and reaching successive climaxes through the 1990s and 2000s, as the figures above illustrate.

The trend since the return to democratic governance in 1999 further illustrates the cyclical, structurally embedded character of Nigeria's deficit financing experience. The Paris Club debt relief of 2005–2006 sharply reduced the external debt burden and, correspondingly, the debt-to-GDP ratio, offering brief fiscal breathing room. That relief proved temporary: the 2008–2009 global financial crisis, the 2014–2016 oil price collapse and ensuing 2016 recession, the 2020 COVID-19 pandemic, and the 2023 fuel subsidy removal and naira exchange rate unification each imposed fresh fiscal pressure, compelling renewed borrowing. By the close of 2024, the debt-to-GDP ratio and debt service obligations relative to revenue had both climbed to levels that raise serious questions about fiscal sustainability, giving practical urgency to a problem the existing literature has addressed only partially.

The figures below present the long-run trend of the principal variables central to this study, drawn from data compiled by the Central Bank of Nigeria (CBN, 2024), the Debt Management Office, and international sources including the World Bank and International Monetary Fund, spanning the 1975 to 2024 review period.

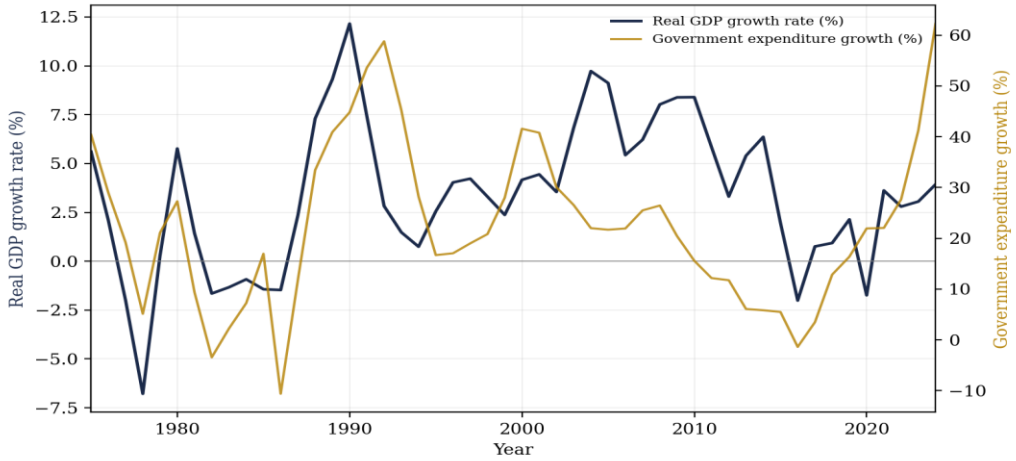


Figure 1.1: Trend in Real GDP Growth Rate and Government Expenditure Growth in Nigeria, 1975–2024

Figure 1.1 traces the co-movement of Nigeria's real GDP growth rate against the annual growth rate of government expenditure. The chart reveals a growth trajectory of pronounced volatility rather than steady expansion. Sharp contractions occurred in the late 1970s and early 1980s, coinciding with the oil glut and the depletion of reserves that forced the resumption of deficit financing, followed by a strong recovery around 1988 to 1990 associated with the SAP-induced devaluation and a temporary oil price rally, before growth weakened again through much of the 1990s amid political instability. The early-to-mid 2000s display a sustained expansion phase, reflecting telecommunications liberalisation, banking sector consolidation, and high oil prices, followed by a marked deceleration from 2015 onward, culminating in outright contractions in 2016 and 2020. Government expenditure growth, plotted against the secondary axis, moves in a broadly parallel but more erratic pattern, frequently overshooting output growth during periods of naira depreciation, when nominal expenditure rises sharply even where real productive capacity is stagnant. The widening divergence between the two series in recent years, particularly following the 2023 exchange rate reforms, illustrates the growing disconnection between the pace of fiscal expansion and the economy's capacity to convert that expenditure into proportionate output growth.

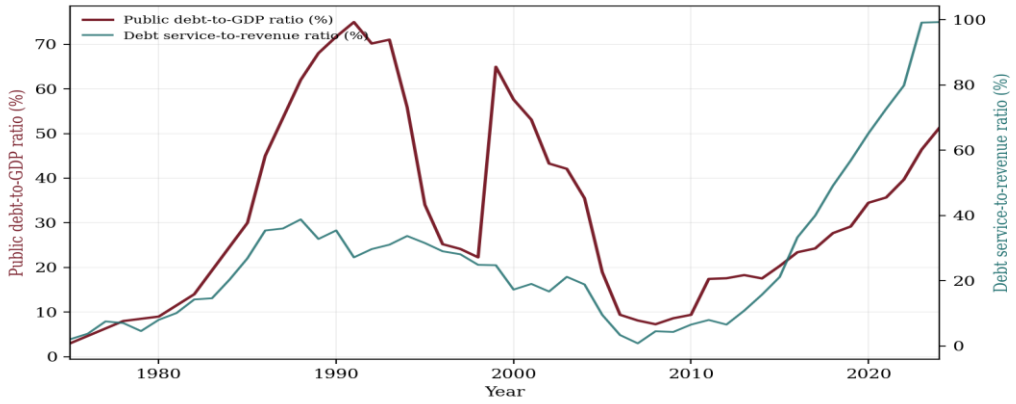


Figure 1.2: Trend in Public Debt-to-GDP Ratio and Debt Service-to-Revenue Ratio in Nigeria, 1975–2024

Figure 1.2 illustrates the trend in Nigeria's public debt-to-GDP ratio alongside its debt service-to-revenue ratio. The debt-to-GDP ratio rose steadily from a modest base in the mid-1970s to a peak of approximately 75 percent in the early 1990s, driven primarily by the naira devaluation of the SAP era, which inflated the domestic currency value of external obligations, compounded by continued borrowing. The ratio then declined markedly through the early-to-mid 2000s, attributable largely to the 2005–2006 Paris Club debt relief, before resuming a persistent upward climb from a historic low around 2008, driven by renewed borrowing to finance widening deficits, reaching over 50 percent by 2024. The debt service-to-revenue ratio follows a related but distinct pattern: comparatively contained through the debt-relief years, it has since risen dramatically, approaching, and on some measures exceeding, the entirety of government revenue. This

divergence underscores the central structural problem afflicting Nigeria's public finances: the constraint is less the absolute size of the debt stock relative to output than the narrowness of the revenue base available to service that debt, with direct implications for the fiscal space available for productive expenditure and economic growth.

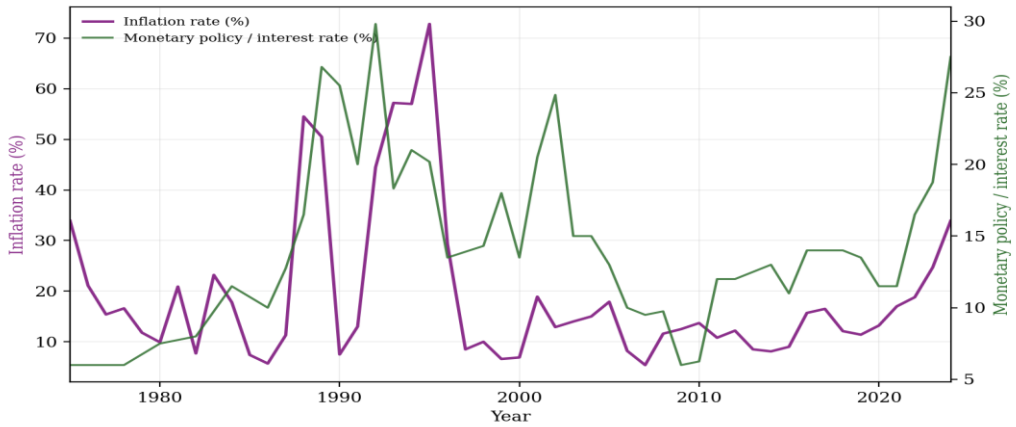


Figure 1.3: Trend in Inflation Rate and Interest Rate in Nigeria, 1975–2024

Figure 1.3 presents the trend in Nigeria's inflation rate and its monetary policy or lending interest rate. Inflation exhibits extreme volatility, with pronounced spikes in the late 1980s and again through the mid-1990s, both closely associated with SAP-induced currency depreciation and monetary expansion used to finance fiscal deficits. Relative price stability is observable through much of the 2000s and early 2010s, before inflation resumes an upward trajectory from 2016 onward, accelerating sharply following the 2020 pandemic shock and the 2023 removal of fuel subsidies and unification of exchange rate windows. Interest rates track a broadly similar, though more policy-driven, pattern, rising sharply after rate liberalisation in the late 1980s, easing through the 2000s, and climbing again from 2022 as the Central Bank of Nigeria pursued aggressive tightening in response to inflationary pressure. The close co-movement of the two series in recent years is consistent with a dynamic in which deficit-driven monetary financing fuels inflation, which the authority then attempts to contain through higher interest rates, a channel through which deficit financing can further crowd out private investment.

Taken together, the trends depicted in Figures 1.1 to 1.3, and the conflicting empirical evidence surveyed above, illustrate an economy in which episodes of deficit-financed fiscal expansion have repeatedly been followed by debt accumulation, currency pressure, and inflationary instability, with output growth responding only weakly, and at times negatively, to the scale of government spending. The existing literature, while extensive, offers no settled account of how these variables interact: inferences drawn by earlier researchers are frequently contradictory, much of the evidence derives from developed-country contexts whose fiscal institutions differ markedly from Nigeria's, and even Nigeria-specific studies, including that of Umeora (2013), have concentrated narrowly on domestic and external debt stock as proxies for deficit financing, without

capturing the broader constellation of variables, namely public debt growth, debt servicing, government expenditure growth, price level increase, and interest rate change, through which deficit financing transmits its effects to the real economy. The time frames of earlier studies have also generally been considerably shorter than the near half-century span considered here, limiting their capacity to capture the full cyclical character of Nigeria's fiscal experience across successive oil booms, debt crises, structural adjustment, democratic transition, and recent currency and subsidy reforms. It is against this backdrop, comprising a persistent and escalating pattern of deficit financing, a fragile and volatile growth trajectory, and a body of literature that remains inconclusive and insufficiently multidimensional, that the present study examines deficit financing outcomes and the growth performance of the Nigerian economy over the 1975 to 2024 period, with a view to establishing the direction and magnitude of these relationships and drawing appropriate policy implications for the management of Nigeria's public finances.

2. Review of Related Literature

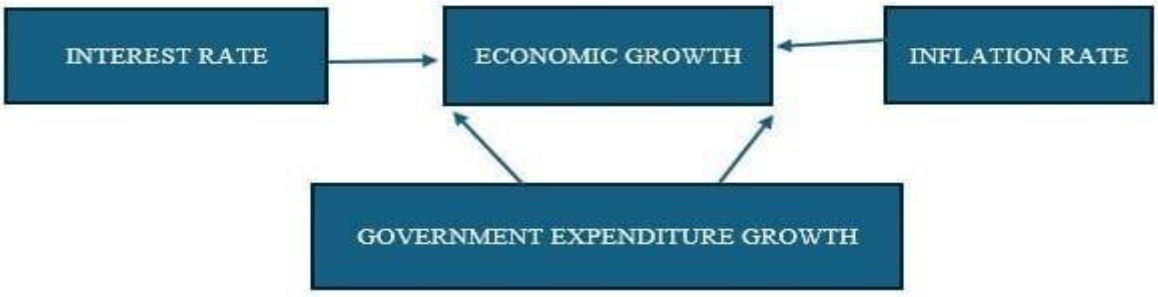
Deficit financing arises when government expenditure exceeds available revenue, with the resulting gap bridged through borrowing or money creation (Hasan, 2020; CBN, 2012). A balanced budget, in which expenditure equals revenue, represents the theoretical ideal, but this is rarely achieved in practice and is nearly impossible for developing countries such as Nigeria, where an ineffective tax system, corruption, and weak governance leave revenue perpetually inadequate relative to expenditure (Pettifor, 2019). Deficit financing therefore involves government borrowing, domestically or externally, to meet obligations repayable on agreed terms at a future date (Monogbe, 2015; CBN, 2013), or, alternatively, a deliberate expansion of the money supply intended to stimulate economic activity that would not otherwise occur (Adesuyi & Falowo, 2016). Sulaiman and Azeez (2016) identify taxation, asset sales, and borrowing as the three means of closing this fiscal gap, noting that asset sales are constrained by the scarcity of public assets and taxation by weak tax systems in developing economies, leaving borrowing as the dominant recourse behind their rising debt profiles. Nzotta (2014) similarly frames deficit financing as reliance on borrowed funds, through debt instruments or non-bank sources, to cover expenditure exceeding receipts (Inam & Ime, 2017). Eze and Ogiji (2016) note that deficits may also be financed through money creation or drawdown of foreign reserves, though both carry costs: the former is inflationary, the latter erodes a country's capacity to respond to national emergencies (Odozi, 1996; Akinmulegun, 2014). Evidence further suggests that absent productive investment of borrowed funds, deficit financing has done little to improve economic welfare in developing countries like Nigeria (Bello, 2004; Olunba, 2008).

Economic growth refers to the increase of per capita gross domestic product (GDP) or other measures of aggregate income typically reported as the annual rate of change in real GDP (Jones, 2002). Hardwick, Khan & Langmead (1994) defined economic growth as an increase in a country’s productive capacity, identifiable by a sustained rise in real

national income. In Schumpeter (1934), economic growth is referred to as the increase in inflation-adjusted market value of the goods and services produced by an economy over time. Economic growth occurs whenever people take resources and rearrange them in ways that are more valuable (Romer, 2006). Therefore, economic growth is an increase in the capacity of an economy to produce goods and services, compared to one period to another.

Generally, economic growth is indicated by an increase in the real gross domestic product or real gross national product (GNP) and has been a primary and perennial goal of all societies and governments. In other words, economic growth is measured by real gross domestic product or gross national product. Real gross domestic product (GDP) is an inflation adjusted measure that is used to measure economic growth of a country. This measure reflects the value of all goods and services produced by a country for a given year. The real GDP is expressed in base year price and often referred to constant price or inflation corrected. It indicates the quantity and quality of goods produced by a country for a given year which makes its comparison from year to year easier.

Gross national product (GNP) on the other hand, refers to the total value of all finished goods and services produced by a country's citizens in a given financial year. It measures the output generated by a country's business in the country or another country. GNP is superset of the GDP. GDP confines it analysis of the economy to the geographical borders of a country while GNP extends it to take account of the net overseas economic activities performed by its residents. GNP signifies how a country's people contribute to its economy. It considers citizenship, regardless of the location of the ownership. GNP does not include foreign residents' income earned within the country. It also does not count any income earned in country by foreign residents or businesses; and excludes products manufactured in the country by foreign companies. This study therefore adopts GDP growth rate as the measurement of the growth of the Nigeria economy.



The above figure 2.1 represents the relationship between the variables of the study. For this study, the explanatory variables are proxied by public debt growth, public debt service, government expenditure growth, inflation rate and interest, while the dependent variable is economic growth proxied by Gross domestic product (GDP)

Theoretically, when the government finances deficit in an economy according to the quantity theory of money, the amount of money in circulation determines the interest rate which will cause a decline in the value of the currency as assumed by Fisher. Financing deficits give rise to public debt cum debt servicing as well as increase in government expenditure. Hence, the increase in the quantity of money in an economy tends to create inflation which is the changes in price level.

This study is underpinned by the Keynesian Theory of deficit financing, propounded by John Maynard Keynes in the early twentieth century in response to the need for post-war economic reconstruction in the United Kingdom. Keynes emphasised the role of investment and aggregate demand in achieving full employment, arguing that government could stimulate output during periods of under-employment by expanding expenditure, particularly capital expenditure, which generates growth through the multiplier process. He nonetheless cautioned that deficit financing should be treated as a last resort, pursued only after long-term capital budgeting fails to secure full employment, and warned that excessive government borrowing raises the cost of capital and can crowd out private investment. This dual insight, that deficit-financed expenditure can stimulate growth while excessive borrowing undermines it, directly underpins the present study's expectation that government expenditure growth will exert a positive effect on Nigeria's growth performance, while public debt growth, debt servicing, and associated inflationary and interest rate pressures exert negative effects.

At a secondary level, the study draws on the Crowding-Out Effect Theory associated with Bacon and Eltis, which holds that rising government debt and its servicing obligations absorb a growing share of national savings, raising interest rates and displacing private investment. This theory underpins the treatment of debt servicing and interest rate change as channels through which deficit financing constrains growth. Together, the Keynesian framework and the Crowding-Out Effect Theory provide a coherent theoretical basis for examining how Nigeria's deficit financing indicators, spanning 1975 to 2024, have simultaneously stimulated and constrained the economy's growth performance.

Recent Nigeria-focused studies, largely drawing on data extending into the early 2020s, provide the most immediate empirical backdrop against which the present study's variables, namely public debt growth, debt servicing, government expenditure growth, price level increase, and interest rate change, can be situated.

Olumuyinwa and Ojiekwe (2025) examined the effect of public debt on economic growth in Nigeria using annual data covering 2000 to 2023 obtained from the Central Bank of Nigeria, the National Bureau of Statistics, and the Debt Management Office. Adopting the Autoregressive Distributed Lag (ARDL) bounds-testing approach for its capacity to accommodate variables of mixed integration order and to estimate short-run and long-run dynamics simultaneously, the study found that domestic debt and longer debt maturity profiles were growth-friendly, while external debt and high servicing costs were

growth-inhibiting, a disaggregation that anticipates the present study's separate treatment of debt growth and debt servicing as distinct channels.

In a closely related study, Hassan, Muhammed-Gani, and Odonye (2025) analysed public debt and economic growth in Nigeria over an extended 1986 to 2024 window, again drawing on ARDL estimation. Their findings showed that both domestic and external debt exerted significant positive long-run effects on growth, attributable to their role in financing productive infrastructure, whereas domestic and external debt servicing exerted significant negative effects, with the external servicing burden proving especially damaging. This pattern, positive debt stock effects alongside negative servicing effects, echoes the theoretical distinction the present study draws between borrowing as a growth stimulant and its repayment obligations as a growth constraint, and stands in partial agreement with Amoo (2024), who similarly applied an ARDL model and found that external debt positively influenced real GDP while debt servicing bore a significant negative correlation with economic performance.

Not all recent evidence points the same way, however. Nwala (2025), employing ARDL alongside regime-based breakpoint analysis on data spanning 1981 to 2023, found that domestic debt stock had a positive and significant long-run impact on growth, but that external debt stock exerted a negative, though statistically negligible, effect, with short-run foreign debt changes harming output before lagged effects turned favourable. This divergence in the significance, though not the direction, of external debt effects illustrates the sensitivity of empirical findings to sample period, breakpoint specification, and model choice, a methodological gap that the present studies near half-century span and first-differenced, logarithmic transformation of variables is designed to address more comprehensively than these shorter-window studies. A further refinement is offered by Ekong, Umoh, and Akpan (2025), who moved beyond a linear specification entirely, applying ARDL combined with threshold regression to 1981–2022 data and establishing a debt-to-GDP threshold of 26.85 percent and a debt-to-revenue threshold of 22.86 percent, below which public debt was found to be growth-enhancing and above which it became significantly growth-retarding. This threshold finding is instructive for the present study, since Nigeria's debt-to-GDP ratio had already exceeded 50 percent by 2024, implying, on this evidence, that the economy has long since crossed into the debt-inhibiting zone, a pattern consistent with the negative and significant debt growth coefficient anticipated in this study's own estimations.

On the expenditure side of deficit financing, the evidence is similarly mixed. Chekwume, Maku, and Onoriode Ashakah (2025), using both ARDL and Dynamic Ordinary Least Squares on 1980–2022 data covering government effectiveness spending, capital expenditure, recurrent expenditure, gross capital formation, employment, and inflation, found no statistically significant impact of government spending on GDP growth, a result the authors attributed to weak fiscal transmission mechanisms and poor implementation of budgeted capital projects. This contrasts with Olurin et al. (2024), whose OLS analysis of 1989–2021 data found a positive and significant relationship between effective public

spending, particularly in education and health, and economic growth, albeit with an accompanying caution regarding the inflationary risk of expansionary spending. A broadly similar affirmative result was reported by Soyebi and Umobong (2024), whose ARDL estimation of government expenditure and growth over 1970 to 2022 likewise supported a long-run cointegrating relationship between fiscal expenditure and output. The disagreement between the Chekwume et al. and Olurin et al. findings mirrors a long-standing fault line in the Nigerian fiscal literature concerning whether the composition and efficiency of spending, rather than its sheer volume, determines its growth impact, a distinction the present study's focus on the growth rate of aggregate expenditure, rather than its component breakdown, is not designed to fully resolve but nonetheless contextualises.

Finally, on the monetary side, Oyadeyi, Osinubi, Simatele, and Oyadeyi (2025), publishing in Cogent Economics & Finance, examined the threshold effects of inflation, interest rate, and exchange rate movements on Nigeria's economic growth, finding that these monetary variables exert growth effects that are non-uniform across their range, turning adverse once inflation and interest rates exceed identifiable thresholds. This finding lends empirical support to the present study's expectation that price level increases and interest rate changes exert negative and significant effects on growth, while also suggesting a nonlinearity that a purely linear long-run estimation, of the kind adopted here, may not fully capture.

Taken together, this recent body of evidence displays substantial agreement that debt servicing, whether domestic or external, consistently depresses Nigerian economic growth, and a similarly consistent, though less universal, finding that monetary variables such as inflation and interest rates become growth-inhibiting beyond certain thresholds. Disagreement persists, however, over the growth effect of the underlying debt stock itself, which some studies find positive and others negative or insignificant, and over whether government expenditure growth translates into output gains at all, a divergence traceable to differing sample periods, debt or expenditure disaggregation, and the presence or absence of nonlinear specifications. None of these recent studies, moreover, integrates public debt growth, debt servicing, government expenditure growth, price level increase, and interest rate change within a single unified model spanning the full 1975 to 2024 period, a gap that links these disparate strands of recent evidence and that the present study is positioned to close.

This study is underpinned by the Keynesian Theory of deficit financing, which holds that expenditure can stimulate growth while excessive borrowing undermines it, and complemented by the Crowding-Out Effect Theory, which explains how debt servicing and interest rate pressures displace private investment. Despite the depth of recent Nigerian literature, no reviewed study operationalises both theories jointly within a single model spanning public debt growth, debt servicing, government expenditure growth, price level increase, and interest rate change together. Most studies, including Hassan et al. (2025), Olumuyinwa and Ojiekwe (2025), and Ekong et al. (2025), isolate debt-related

variables, while Chekwume et al. (2025) and Soyebi and Umobong (2024) isolate expenditure, and Oyadeyi et al. (2025) isolate monetary variables, leaving their interaction unexamined. Sample periods also rarely exceed four decades, none spanning the full 1975–2024 window covering successive oil booms, the 1986 devaluation, Paris Club relief, and the 2023 subsidy reforms. Findings on debt's growth effect remain contradictory, and threshold nonlinearities identified by Ekong et al. (2025) are seldom tested alongside expenditure and monetary channels. This study therefore closes these gaps by integrating all five deficit-financing indicators within a unified long-run framework, drawing on the near half-century Nigerian experience to establish their combined direction and magnitude of effect on growth performance.

3. **Methodology**

The nature of this study necessitated the use of secondary data for this study. The use of secondary source of data is due to the fact that information on the variables used for conducting the study can be found in Central Bank of Nigeria Statistical Bulletin. This source of data also has the advantage of being relatively reliable since the data was sourced from CBN Statistical Bulletin (2024). Data relating to both the dependent, independent and control variables of this study was derived from CBN statistical bulletin that covered a period between 1975-2024. The data includes; Public Debt Growth (first diff in pub debt figure), Growth in Public Debt Service (first diff of public debt service), Growth in Government Expenditure (first diff of government expenditure), Price Level Increase (Inflation Rate), Interest Rate Change (first diff of interest rate) and Growth of the Nigeria economy (GDP growth rate).

This study is in line with the econometrics assessment of Chidinma, Yalouli & Kalu (2025), it also made use of time-series data to tests for the effect of the predictor variables (independents) on the dependent variable in order to ascertain the effect of deficit financing outcomes and the growth performance of the Nigerian economy (1975-2024).

The structural form of the model is stated as equation below:

$Y = f(x)$ …… (i)

Where Y is the dependent variables, f is the functional and X represents independent variables.

The model was further expressed in mathematical equation (i) below;

$GDPGROWTH_t = f(DSP_t, RINTR_t, GEXP_t, INFR_t, EXDEBT_t,)$…….(ii)

To make the mathematical expression estimable, it is transformed as equation (iii) below:

$GDPGROWTH_t = \beta 0 + \beta_1 DSP_t + \beta_2 RINTR_t + \beta_3 GEXP_t + \beta_4 INFR_t + \beta_5 EXDEBT_t + \mu$…….(iii) Where:

GDPGROWTH = GDP Growth Rate (Dependent Variable)

DSP = First Difference of Public Debt Service (Independent Variable)

RINTR= First Difference of Interest Rate (Independent Variable)

GEXP = First Difference of Government Expenditure (Independent Variable)

INFR = Inflation Rate (Independent Variable)

EXDEBT = First Difference of Public Debt Figure (Independent Variable) β_o = interpret $\beta_1 - \beta_5$ = Coefficient of the explanatory variables

μ = error terms of the model.

The model above was modified to reflect that this study is time-series which is a countryspecific study and also the inclusion of more explanatory variables. Based on this the general model for employed for this study is specified in a time-series form which is presented below;

$$GDPGROWTH = \delta + \delta\ DSP + \delta\ RINTR + \delta\ GEXP + \delta\ INFR + \delta\ EXDEBT + \mu$$

All the variables are defined in equation 2 nevertheless the coefficients and other notations are explained below:

δ = constant or the intercept

δ - δ = coefficients of the parameters or explanatory variables

μ = the residual or error term

All the variables are as defined above. The general model is uncoupled to show the respective models for testing the five (5) formulated hypotheses as presented below:

$$LGGDPGROWTH = \delta + \delta\ LGGDPGROWTH + \delta\ LGDSP + \delta\ LGRINTR + \delta\ LGGEXP + \delta\ LGINFR + \delta\ LGEXEBT + \vartheta\ LGGDPGROWTH + \vartheta\ LGDSP + \vartheta\ LGRINTR + \vartheta\ LGGEXP + \vartheta\ LGINFR + \vartheta\ LGEXDEBT + \mu_t$$

δ = constant or the intercept

δ - δ = coefficients of the short-run parameters or explanatory variables

ϑ - ϑ = coefficients of the short-run parameters or explanatory variables

μ = the residual or error term

The variables for this study was selected based on the literatures empirically reviewed by considering factors for determining how deficit financing outcomes affects growth performance of the Nigerian economy (1980-2024). The variables used in this current estimation are therefore explained below in a tabular form. This section presents a summary of all the variables description, the source of the measurement and the a-priori expectation.

Table 3.4.1: Variables Measurement and Description

S/N	Variable Name	Description/Measure	Variable Type	Apriori Expectation
1	GDPGROWTH	Measured as GDP Growth Rate	Dependent	Nil
2	DSP	Measured as First Difference of Public Debt Service	Independent	Negative
3	RINTR	Measured as First Difference of Interest Rate	Independent	Positive
4	GEXP	Measured as First Difference of Government Expenditure	Independent	Positive
5	INFR	Measured as Inflation Rate	Independent	Negative
6	EXDEBT	Measured as First Difference of Public Debt Figure	Independent	Negative

Source: Researcher compilation from the Literature, 2025.

The focus of the study requires an autoregressive distributed lag (ARDL) model (ARDL bounds test for co-integration) in order to estimate the short and long-run relationships and the direction of causality, respectively, among the variables. The advantages of the ARDL

model to others include robustness in the face of small samples, ability to accommodate different orders of integration even being able to overcome diagnostic problems such as autocorrelation that may arise. E-views 10.0 econometric software was used for the analysis. Some preliminaries test necessary for time series data were conducted in this study to test for the time series properties of the data. These tests were carried out to ascertain the adoption of the various technique of analysis used in the study. This test includes both pre and post estimation test explained below;

Step 1: Pre-estimation Tests

Pre-estimation tests can be defined as pre-essential statistical tests/Diagnostics that must be performed before the main estimation or other analysis in a study is done. Such tests are essential to the fact that the data give seamlessness with the assumptions, which holds the selected statistical model, and can help identify the problems that might subsequently affect the validity of findings. This includes:

Descriptive Statistics refer to the summary statistics that describe the main features of data in a dataset. They include Mean, Median, Standard Deviation, Minimum, Maximum, Variance, Skewness and Kurtosis.

Correlational analysis is the procedure that involves the analysis of the association between two or more variables in a panel. It indicates whether they have positive and significant relationship between the variables being studied. It also depicts direction (positive) and extent (significance) of the variables in consideration. The outcome may be positive correlation, negative correlation or zero correlation.

Unit root test was conducted for stationarity of data or determining the presence of unit root or checking the integrated levels of data. The unit root test according to Saeed (2015), the stationarity of data helps in the selection of statistical model for time series. Data for a time series analysis are expected to be stationary at various stages as; levels I(0), first difference I(1) and second difference I(2). This test of stationarity helps in determining whether to run a Simple Regression, Auto-Regressive Distributed Lag, cointegration (unrestricted VAR or ECM) and Autoregressive Conditional Heteroskedasticity (ARCH) Model etcetera as the case may be.

Step 2: The Main Panel Estimation

The primary estimation technique of this study is Autoregressive Distributed Lag Model ARDL). The reason of adopting Autoregressive Distributed Lag (ARDL) model in the present study is that it is able to deal with both mixed stationarity and even provide estimates of longrun relationships and accommodation of heterogeneity and robustness against endogeneity.

Test for model stability of the variables. This was conducted using Ramsey Reset and CUSUM test. Test for heteroscedastic residuals. This test was carried out using Breusch, Pegan and Godfrey test (BPG). Test for higher auto correlation. This test was conducted using Breusch-Godfrey Langrange Multiplier test (BG LM).

This study employed E-view 10.0 statistical software. The decision rule that guides this study is based on 5% degree of significance and the conclusion of this study is based on this decision rule.

4. Data Presentation and Analysis

Descriptive statistics enable us to present the data in a more meaningful way, which allows simpler interpretation of the data. The mean represents the average value of the variables whilst standard deviation indicates how variables are distributed around their mean values.

Table I: Summary of Descriptive Statistics

	LGDPGROWTH	LDSP	LRINTR	LGEXP	LINFR	LEXDEBT
Mean	4.472704	6.64E+08	8.854056	3812.391	11.44706	4.84E+10
Median	6.309719	3.95E+08	6.684909	3861.745	11.58108	4.26E+10
Maximum	8.036925	2.65E+09	18.18000	5206.400	16.95285	9.63E+10
Minimum	1.794253	2.52E+08	1.067736	2776.910	8.047411	2.04E+10
Std. Dev.	3.166395	6.00E+08	4.635337	653.2411	2.656472	2.27E+10
Skewness	-0.762762	1.886289	0.446462	0.168638	0.440608	0.717468
Kurtosis	2.353524	5.734270	2.558397	2.350850	2.348661	2.431958
Obs	50	50	50	50	50	50

Source: E-View 10.0 Output, 2025.

Table 1 shows the results of descriptive statistics, which provides the number of observations, mean, standard deviation, maximum, minimum, skewness and kurtosis values of the variables used in this study. The result also revealed the mean value of GDP Growth Rate (LGDPGROWTH) which is 4.47 while the median is 6.31. The maximum and minimum

values are 8.04 and 1.79 respectively. The standard deviation of 3.17which implies that the GDP Growth Rate (LGDPGROWTH) deviated from the mean by 3.17. GDP Growth Rate (LGDPGROWTH) has a negative Skewness value of -0.76. The Kurtosis has a positive value of 2.35, which implies that the distribution is leptokurtic (peaked-curve) indicating that they are higher value than the sample mean for this variable.

Table 1 also revealed the mean value of First Difference of Public Debt Service (DSP) which is 6.64 while the median is 3.95. The maximum and minimum values are 2.65 and 2.52 respectively. The standard deviation of 6.00 implies that the First Difference of Public Debt Service (DSP) deviated from the mean by 6.00. First Difference of Public Debt Service (DSP) has a positive Skewness value of 1.89. The Kurtosis has a positive value of 5.73, which implies that the distribution is leptokurtic (peaked-curve) indicating that they are higher value than the sample mean for this variable.

Table 1 revealed the mean value of First Difference of Interest Rate (LRINTR) which is 8.85 while the median is 6.68. The maximum and minimum values are 18.18 and 1.07 respectively. The standard deviation of 4.64 implies that the First Difference of Interest Rate (LRINTR) deviated from the mean by 4.64. First Difference of Interest Rate (LRINTR) has a positive Skewness value of 0.44. The Kurtosis has a positive value of 2.56 which implies that the distribution is leptokurtic (peaked-curve) indicating that they are higher value than the sample mean for this variable.

Furthermore, table 1 also showed the mean value of First Difference of Government Expenditure (LGEXP) which is 3812.39 while the median is 3861.75. The maximum and minimum values are 5206.40 and 2776.91 respectively. The standard deviation of 653.24 implies that the First Difference of Government Expenditure (LGEXP) deviated from the mean by 653.24. First Difference of Government Expenditure (LGEXP) has a positive Skewness value of 0.17. The Kurtosis has a positive value of 2.35 which implies that the distribution is leptokurtic (peaked-curve) indicating that they are higher value than the sample mean for this variable.

Table 1 also showed the mean value of Inflation (LINFR) which is 11.45 while the median is 11.58. The maximum and minimum values are 16.95 and 8.05 respectively. The standard deviation of 2.66 implies that the Inflation (LINFR) deviated from the mean by 2.66. Inflation (LINFR)) has a positive Skewness value of 0.44. The Kurtosis has a positive value of 2.35

which implies that the distribution is leptokurtic (peaked-curve) indicating that they are higher value than the sample mean for this variable.

4.1.3 Unit Root Test Output

Table 3: Summary of Unit Root Tests

Variables	t-statistics	Critical Values @5%	Order of Integration	Prob.	Remarks
LGDPGROWTH	(6.667799)	(1.948313)	I(0)	0.0000	Stationary
LDSP	(6.766611)	(3.504330)	I(0)	0.0000	Stationary
LRINTR	(7.501377)	(3.506374)	I(0)	0.0000	Stationary
LGEXP	(5.805564)	(1.948495)	I(0)	0.0000	Stationary
LINFR	(7.659740)	(3.504330)	I(0)	0.0000	Stationary
LEXDEBT	(6.133851)	(3.504330)	I(0)	0.0000	Stationary

Source: E-View 10.0 Output, 2025 (See Apendix 8)

As shown in table 3 (Appendix 8), the first column contains all the variables, second column shows the t-statistics, the third column shows the test critical values at 5% level of significance, the fourth column revealed the order of integration (at levels or first order), the fifth column shows the probability values of the test and last column showing the remarks. The result shows that the variables under study are stationary at levels order of integration. Based on this, the study would adopt Auto Regressive Distributed Lag Model (ARDL) method to test the hypotheses of this study.

4.1.4 ARDL Output

TABLE 4: Summary of ARDL Estimates

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	36.91577	6.344647	5.818411	0.0000
LDSP	-1.737679	0.722046	-2.406605	0.0208
LRINTR	-0.827454	0.206326	-4.010418	0.0003
LGEXP	0.005543	0.002186	2.535737	0.0152
LINFR	-0.827454	0.206326	-4.010418	0.0003
LEXDEBT	-7.433965	3.242327	-2.292787	0.0272

Bounds Test				Asymptotic: n=1000			
F-statistic	27.35794		10%	3.47	4.45		
K	6		5%	4.01	5.07		
	2.5%	4.52	5.62	1%	5.17	6.36	
DIAGNOSTIC TESTS							
BG_ LM Test	F-statistic		0.735261	Prob. F (2,31)			0.6020
	Obs*R-squared		4.657603	Prob. Chi-Square (2)			0.4591
BPG – HET Test	F-statistic		5.09E+16	Prob. F(41,7)			0.1829
	Obs*R-squared		49.00000	Prob. Chi-Square(41)			0.4659
Ramsey Reset Test	T-Statistic		10.249380	Prob.		0.8044	
	F-Statistic		0.062190	Prob.		0.8044	

Source: E-View 10.0 Output, 2025 (See Appendix 1)

A test of Autocorrelation (serial correlation) is conducted to check if the error terms of the variables are correlated, as shown in table 4 (Appendix 1).

The summary of Breusch-Godfrey Serial Correlation LM result in table 4 (Appendix 1) shows the values of F-statistics and Chi-square of 0.74 and 0.60 respectively. With a null hypothesis of no serial correlation, we fail to reject the null considering the results of the Fstat (4.66) and X^2 (0.46) both greater than the 5% level of significance. It clearly signifies that there are no cases of serial autocorrelation.

A test of heteroskedasticity is conducted to ascertain the homoskedastic or heteroskedatic nature of data for the study. Heteroskedasticity refers to a circumstance in which the variability of a variable is unequal across the range of values of a second variable that predicts it.

The summary result in table 4 (the full result in Appendix 3) shows the F-statistics value of 5.09 with a corresponding observed R-square probability value of 0.80, both greater than the 5% level of significance. Hence, the study fails to reject the hypotheses of no heteroskedasticity. The results simply indicate that the data for analysis are all homoskedastic.

The Ramsey RESET test presented in Table 4 (the full result in Appendix 4) serves as a crucial diagnostic tool for assessing potential model misspecification in the given autoregressive distributed lag (ARDL) model. The fundamental purpose of this test is to evaluate whether the current linear specification adequately captures the relationship between the dependent variable and its predictors, or whether important nonlinear terms have been

omitted. The test specifically examines the need for including squared fitted values by comparing the original restricted model against an unrestricted version that incorporates these additional terms. The key results show a t-statistic of 10.25 and an F-statistic of 0.06, both yielding identical p-values of 0.80, which substantially exceed conventional significance thresholds. This statistical evidence strongly suggests that the inclusion of squared fitted values does not significantly improve the model's explanatory power, implying that the current linear specification appears appropriate and that there is no compelling evidence of omitted nonlinear relationships.

The study found that in the long run public debt service (DSP) has a negative value of (-2.41) and significant (0.02) effect on GDP Growth Rate in Nigeria. This implies that in the long run, a unit increase in public debt service would lead to increase in GDP Growth Rate in Nigerian economy. This finding is in line with study of Karagol (2002); Audu (2004); among others as can be seen in the empirical works reviewed in this study, but disagrees with the study of Adepoju, Salawu and Obayelu (2007) and Adesola (2009) which concluded that debt service payment to foreign creditors exerted positive impact on sustainable economic growth and development. Hence, it corresponds with the Quantity theory of money adopted in this study. Public debt servicing constitutes one of the major constraints to sustainable economic growth, particularly when borrowed funds are not effectively channeled into productive sectors of the economy. When loans obtained by a country are mismanaged, diverted, or used for non-productive purposes such as recurrent expenditure or political patronage, the resulting debt burden becomes a fiscal challenge. This situation limits the government's ability to invest in critical infrastructure, social welfare, and industrial development, thereby constraining the overall productivity of the nation. The negative relationship suggests that the cost of debt repayment outweighs the potential economic benefits that should ordinarily accrue from the borrowed funds if they had been productively utilized. Consequently, the resources that could have been deployed toward promoting capital formation, industrial growth, employment generation, and technological advancement are instead used to settle debt obligations, leading to a slowdown in economic growth.

Also, the study found that in the long run interest rate change (RINTR) has a negative value of (-4.01) and significant (0.00) effect on GDP Growth Rate in Nigeria. This implies that in the long run, a unit increase in interest rate change would lead to increase in GDP Growth Rate in Nigerian economy. This finding agrees with the findings of Babalola, et al (2021); Itodo, Eche and Kamo (2022) but in disagreement with the study of Umaru and Zubairu

(2012), which concluded that interest rates possess a positive impact on economic growth by encouraging productivity plus the evolution of total factor productivity. Thus, it conforms with the theoretical framework adopted in this study. Interest rate fluctuations play a crucial role in shaping the direction and pace of economic activities within any country. When interest rates rise beyond a certain threshold, the cost of borrowing increases, making it difficult for individuals and businesses to access credit facilities for productive investments. High interest rates discourage potential borrowers especially entrepreneurs, manufacturers, and small business owners from seeking loans to expand their operations. As a result, production levels decline, business growth stagnates, and overall economic performance weakens. The negative effect suggests that when the cost of borrowing becomes excessively high, both private and public sector investments decline, leading to reduced aggregate demand and slower output growth.

Furthermore, the study found that in the long run government expenditure growth (GEXP) has a positive value of (2.53) and significant (0.02) effect on GDP Growth Rate in Nigeria. This implies that in the long run, a unit increase in government expenditure would lead to increase in GDP Growth Rate in Nigerian economy. The finding corresponds with the study of Odubuasi, Ifuruze and Ezeabasi (2020); Muritala and Taiwo (2011); among others but disagrees with study of Okoye, Omankhanlen, Okoh, Uhie and Ahmed (2019), which found no long-term influence of government spending on economic growth in Nigeria. Thus, it agrees with the theoretical framework adopted in this study. Government expenditure plays a pivotal role in stimulating economic growth, particularly when directed toward capital projects and human development initiatives. Productive government spending creates a foundation for sustainable economic expansion by enhancing productivity, improving living standards, and generating employment opportunities. When public funds are efficiently allocated and properly utilized for developmental purposes, they contribute significantly to increasing the nation's output and promoting inclusive growth. The positive relationship implies that fiscal expansion, particularly in areas such as infrastructure, education, and social welfare, supports industrial growth, reduces poverty, and fosters macroeconomic stability.

The study found that in the long run price level increase (INFR) has a negative value of (4.01) and significant (0.00) effect on GDP Growth Rate in Nigeria. This implies that in the long run, a unit increase in price level increase would lead to increase in GDP Growth Rate in Nigerian economy. The finding agrees with the studies of Idris and Suleiman (2019); but differed from the study of Anidiobu, Okolie and Oleka (2018), which was statistically

significant and have a negative relationship with economic growth in Nigeria. Hence, Omoke (2010) concluded that inflation has an impact on economic growth in Nigeria. Thus, it conforms to the theoretical framework adopted in this study. An increase in the general price level, often referred to as inflation, poses a significant challenge to the stability and growth of any economy. When prices of goods and services rise continuously, the purchasing power of money declines, meaning that consumers can buy fewer goods with the same amount of income. This reduction in real purchasing power negatively affects household consumption, business investment, and overall economic performance. Persistent inflation also creates uncertainty in the economy, discouraging both domestic and foreign investors who are uncertain about future returns. As a result, the productive capacity of the economy weakens, and the pace of GDP growth slows down. When the cost of production increases due to inflation, firms often reduce output or increase prices further, creating a vicious cycle that suppresses aggregate demand and slows economic activity. High inflation also undermines the effectiveness of fiscal and monetary policies, making it difficult for the government to achieve macroeconomic stability.

The study found that also in the long run public debt growth (EXDEBT) has a negative value of (-2.9) and significant (0.03) effect on GDP Growth Rate in Nigeria. This implies that in the long run, a unit increase in public debt growth would lead to increase in GDP Growth Rate in Nigerian economy. The finding is in line with the studies of Udeh, Ugwu and Onwuka (2016); Akhanolu, Babajide, Akinjare, Tolulope et al. (2018) and Elom-Obed, Odo, ElomObed and Anoke (2017) as observed in the empirical studies reviewed. Thus, it is in line with the theoretical framework adopted in this study. Public debt growth is an important economic indicator that reflects a nation's borrowing behavior and fiscal health. When managed prudently and directed toward productive investments, public debt can stimulate growth by financing infrastructure, industrial expansion, and human capital development. However, when borrowed funds are mismanaged, diverted, or embezzled, public debt becomes a serious economic burden rather than a tool for development. In such cases, the country not only fails to achieve the intended developmental outcomes but also incurs future obligations that strain public finances. Misuse of borrowed funds through corruption, inefficiency, or poor project execution diminishes the potential returns on investment and undermines economic stability. The negative effect suggests that the growing debt burden diverts substantial portions of government revenue to debt servicing rather than development projects, thereby reducing investment in infrastructure, education, healthcare, and other

critical sectors that drive growth. As debt obligations accumulate, fiscal sustainability weakens, investor confidence declines, and economic growth slows down.

5. Summary, Conclusion and Recommendations

This study examined deficit financing outcomes on the growth performance of the Nigerian economy. The study discussed the background of the study, the statement of the problem was well discussed, research questions and hypotheses were all in line with the objectives of the study. The scope was well stated and those who benefit from the study spelt out. The study also defined the operational definition of key terms used. In chapter two, the various concepts relating to both the dependent and independent variables were discussed. The study empirically examined other related works to be able to draw out the gap of this present study.

Based on the findings of the study, it can be concluded that Nigeria's economic growth is highly sensitive to the dynamics of fiscal and monetary policy variables such as public debt, debt servicing, government expenditure, interest rate, and inflation. The study established that while government expenditure growth has a positive and significant effect on the GDP growth rate, reflecting the importance of productive public spending in stimulating economic activity, variables such as public debt growth, debt servicing, interest rate, and inflation exert negative and significant effects on economic performance in the long run. This indicates that the benefits of fiscal expansion are often undermined by excessive borrowing, high debt repayment obligations, volatile interest rates, and rising price levels. Overall, the findings suggest that Nigeria's challenge is not necessarily the act of borrowing or spending, but rather how efficiently resources are managed and allocated toward productive sectors. Sustainable economic growth, therefore, requires prudent debt management, stable monetary policies, effective inflation control, and strategic government investment in infrastructure and human capital.

Based on the findings and conclusions of this study, the following recommendations are proffered by the researchers:

1. Borrowing should be limited to projects that have measurable economic returns capable of generating future revenue to offset debt obligations.
2. Monetary policies should aim at reducing excessive lending rates to encourage productive investment by businesses, especially in the manufacturing, agriculture, and small-scale enterprise sectors.

3. Strict accountability and transparency mechanisms should be enforced to prevent misappropriation of resources and ensure that every expenditure contributes meaningfully to national growth.
4. The government, through the CBN, should adopt a mix of fiscal and monetary policies aimed at controlling inflationary pressures such as regulating money supply, maintaining exchange rate stability, and promoting domestic production to reduce import dependency.
5. Government should ensure that future borrowings are tied to economically viable and revenue-generating projects. 6.4 Contribution to Further Studies

This study extends the frontiers of existing literature on deficit financing in Nigeria by incorporating broader fiscal and monetary variables such as interest rate change, government expenditure growth, and price level increase, in addition to traditional debt-related indicators. Future researchers can build upon this expanded analytical framework to explore additional macroeconomic channels through which deficit financing affects sectoral performance, such as industrial productivity, employment generation, and income distribution.

By employing an ex post facto research design and time-series analysis over a long period (1975–2024), this study contributes methodologically to empirical research on fiscal sustainability. It demonstrates the relevance of using interpolated and logarithmic data transformations in managing missing data and scale inconsistencies in macroeconomic datasets. Future studies can adopt advanced econometric techniques such as Structural Vector Autoregression (SVAR) or Dynamic ARDL simulations to provide deeper insights into the causal dynamics between fiscal variables and economic growth.

The findings reveal that fiscal expansion supports growth only when complemented by prudent debt management and stable monetary policy. This conclusion provides a platform for future comparative research across Sub-Saharan African countries to examine whether similar patterns hold in economies with comparable fiscal structures. Scholars can also extend this work by investigating the moderating effects of institutional quality, governance effectiveness, and corruption control on the relationship between deficit financing and economic growth outcomes.

Future studies should integrate institutional quality indicators such as government effectiveness, regulatory quality, and corruption control to examine how governance structures moderate the relationship between deficit financing and economic growth. This

would provide a more holistic understanding of how institutional efficiency influences the outcomes of fiscal and monetary policies in Nigeria.

Further research should conduct comparative analyses between Nigeria and other developing or Sub-Saharan African countries to identify common fiscal patterns and policy outcomes. Such studies would help determine whether the effects of deficit financing observed in Nigeria are country-specific or reflective of broader regional fiscal dynamics.

Future studies should disaggregate the impact of deficit financing on key productive sectors such as agriculture, manufacturing, and mining. This would allow researchers to understand how deficit-funded expenditures affect sectoral growth performance and employment generation, providing a clearer link between fiscal policy and structural economic transformation.

Subsequent studies can apply more sophisticated econometric techniques such as Structural Vector Autoregression (SVAR), Dynamic ARDL simulations, and Nonlinear ARDL models to capture both short-run and long-run asymmetric effects of deficit financing on economic growth.

Researchers should consider including additional variables such as exchange rate volatility, money supply, and foreign reserve levels to better explain the transmission mechanisms of deficit financing. This would enhance the robustness of empirical results and improve the formulation of effective fiscal and monetary policies.

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