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Impact of Fiscal Deficit and Inflation in Nigeria: 1990 – 2024

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Abstract
In investigating the impact of fiscal deficit and inflation in Nigeria from 19900to 2024, this study employed descriptive statistics, Ordinary Least Squares (OLS) techniques, Co-integration and Error Correction Mechanism (ECM). To facilitate our investigation of the subject matter, data were obtained from secondary sources on Inflation Rate (IP) Fiscal Deficit (FD), Exchange Rate (EXR). Money Supply (MS) and Real Gross Domestic Product (RGDP). Specifically, both Augmented Dickey-Fuller (ADF) approach and Phillips-Perron (PP) test were carried out to test the stationary relationship among the variables in the model. It was observed from the analyses that all the variables were integrated of order one, I(1). Also, the co-integration result revealed the existence of a long run relationship among the variables. Furthermore, the result of the Error Correction Model (ECM) analysis revealed the existence of long run insignificant negative relationship between Fiscal Deficit (FD) and Inflation rate (IP), insignificant positive relationship between Exchange Rate (EXR) and Inflation rate (IP), and significant positive relationship between Money Supply (MS) and Inflation Rate (IP) in Nigeria. This study further revealed a long run significant negative relationship between the current value of Real Gross Domestic Product (RGDP) and Inflation Rate (IP), while the previous value of Real Gross Domestic Product showed the existence of an insignificant positive relationship with Inflation Rate (IP).Based on these findings, the study therefore concludes that no real evidence of causality exists between fiscal deficit and inflation in Nigeria within the period under investigation. The foregoing therefore, suggests alternative control measure of effective management of the macro-economic variables that exhibit long run positive relationship with inflation, towards stemming inflationary pressure in Nigeria and that the overriding concern of policy makers in Nigeria with respect to the subject matter, should be the method of deficit financing and not the level of fiscal deficit.

Keywords: Impact, Fiscal Deficit, Inflation, Exchange Rate and Economy.

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1.0 Introduction

Government intervention in economic development through the instrumentality of policy measures is necessary in Nigeria as well as other developing and developed countries of the world. Specifically, the low level of private savings that characterize most developing countries necessitates the increasing dominant role of government in initiating and financing economic development. Government policy intervention in economic development includes fiscal and monetary policies. Fiscal policy approach of government is usually implemented through its expenditure on the provision of quality education, adequate health care services, infrastructures and military wares. "But in the process of discharging these enormous responsibilities, the revenue and spending requirement of government may sometimes outstrip its availability" (Achegbulu (2012). This therefore necessitates the need for deficit financing to augment the short falls in government expenditure requirements. The persistent adoption of deficit financing by government of different countries has brought the concept of fiscal deficit into sharp focus. Specifically, what then is fiscal deficit?

Specifically, it defines the "excess of public spending over its revenue" (World Bank 2005.)

Fiscal deficit n may be unavoidable in developmental process. In the bid to overcome the rising levels of macroeconomic instability, governments in various countries have resorted to fiscal deficits in their spending" (Nenbee, 2009). The volatile revenue base of government and upward tendency in government expenditure pattern has led to unavoidable government deficit spending. 'It has been argued that in the process of economic development, fiscal deficit should be regarded as an essential element in development process (National Center for Economic Management andAdministration,2004). However, according to Ubogu (1982), "it is the level, magnitude and mode of its financing and the tendency thereof to yield macroeconomic consequences such as inflation. distortion in external economies and crowding out effect of private sector investment". "In Nigeria, fiscal deficits were generally financed from excessive borrowing from the banking sector and external sources" (National Centre for Economic Management and Administration, 2004).

"It is pertinent to mention that out of the 43 years under investigation, the Nigeria's economy witnessed budget surplus in 1971, 1973, 1974, 1979 1995 and 1996," CBN Various Annual Bulletins as cited in Ezeabasili, Mojekwu and Harbert, (2012). That is a period of 6 years. Subsequently, the government had always adopted fiscal deficit measures in its development effort.

According to Ezeabasili, Mojekwu and Herbert (2012) "fiscal policy plays a key role in the sustenance of economic growth and achievement of macroeconomic stability". "Indeed, the magnitude of government fiscal surplus or deficitis probably one of the most important statistical parameters used to measure the impact of government fiscal policy on the economy" (Siegel 1979; Tanzi and Blejer 1984). Ike, (2002) observed that in Nigeria, 'the objectives of fiscal policy are to generate surpluses/public savings while maintaining balance of payment equilibrium, price and exchange rate stability, generate employment opportunities and enhance real growth of national economy. Government assumes these roles because of the failure ofthe market economy to achieve a stable equilibrium with fair and equitable distribution of income due to the existence of market imperfections'. In addition to the existence of market imperfections due to institutional and other factors, are also the problems of bad leadership and the myriads of socioeconomic problems associated with it, coupled with the lack of entrepreneurial capacity in Nigeria. "Fiscal deficits in Nigeria were generally financed by excessive borrowing from the banking sector and external sources" National Center for Economic Management and Administration Bulletin, as cited in Ezeabasili, Mojekwu and Harbert (2012)

Empirical evidence in most developing countries has shown that this method of financing budget deficit has resulted in high monetary expansion, high inflation, high public debt, exchange rate depreciation, deterioration in the balance of payments, sluggish or negative growth rates, high interest rates including crowding out effects of private sector investment, corruption, financial sector distress and unemployment' Onwioduokit, 1999 as cited in Ezeabasili, Mojekwu and Harbert (2012).

Arising from the above, several studies using various measures to investigate the nature of the relationship of fiscal deficit on inflationary pressure have provided mixed results. These studies could be viewed in terms of positive and negative view points. The scholars on the extreme right are Oladipo and Akinbobola (2011), Awe and Shina (2012), Ezeabasili, Mojekwu and Herbert (2012), Ozurumba (2012), Dockry, Ezeabasili and Herbert (2012), Imegi (2014), Orji, Onyeze and Edeh (2014), Anfofun, Yahaya and Suleman (2015) and more found a positive relationship between fiscal deficit and inflation while on the other hand, Onwioduokitt (1999), Olusoji and Oderinde (2011) and Bakere, Adesanya and Bolarinwa (2014) do not find any significant positive or negative relationship with inflation. Against this backdrop, the federal government of Nigeria has adopted diverse policy measures including tight monetary policy measures and the introduction of Structural Adjustment Program (SAP) to restructure the pattern of the macroeconomic management towards price stability and fiscal consolidation. Despite these noted policy measures of the federal government of Nigeria to check the rate of inflation, fiscal deficit inflation nexus remain unabated. This study therefore sets out to investigate the relationship between fiscal deficit and inflation in Nigerian economy from 1990-2024

2.0 Literature Review

Theoretically, the structuralist view, "inflation is attributed to economic growth particularly in the Developing Economies. They argue that because of the structural and institutional constraints that characterize the Less Developed countries any attempt to increase economic growth brings with it increase in prices."Asogu (1991:242) posits that "structural inflation is said to result from Supply shocks including insufficient foreign exchange supply for financing importation". This is prevalent in the Less Developed economies and hence defines and explains the phenomenon of inflation in developing economies, especially those of them adopting Structural Adjustment Programmes which are anchored on the structural theory. Since the means of detecting the impact of exchange shortage in the demand-supply relationship is exchange rate, its depreciation and under valuation (devaluation) is said to generate inflationary pressure.

A plethora of empirical studies on the impact of fiscal deficit on inflationary pressure of many countries had been conducted by different scholars employing different econometric techniques but, the mixed nature of their findings has made the issue inconclusive. These studies could be viewed in terms of positive and negative view points. The positive effect advocates are Oladipo and Akinbobola (2011), Awe and Shina (2012), Ezeabasili, Mojekwu and Herbert (2012), Ozurumba (2012), Dockry, Ezeabasili and Herbert (2012), Imegi (2014), Orji, Onyeze and Edeh (2014), Anfofun, Yahaya and Suleman (2015) and more. On the other hand, Onwioduokitt (1999), Olusoji and Oderinde (2011) and Bakere, Adesanya and Bolarinwa (2014) argued for negative effect. Arising from the above, this study assumes a neutral view point but proceeds to explore the actual nature ofthe relationship that exists between the variables.

Onwioduokit, (1999) studied "the causal relationship between inflation and fiscal deficits in Nigeria" from 1970 to1994. The study conducted Granger Causality Test on the ratio of fiscal deficit to gross domestic product, level of fiscal deficit and inflation rate. Granger Causality

approach revealed empirical evidence of unidirectional causality influence of fiscal deficit on inflation and a bilateral causality relationship between the ratio of fiscal deficit and gross domestic product. The study therefore recommends that "inflation and interest policy should be implemented as they are capable of reducing budget deficit in Nigeria by more thousand percentage index".

Oladipo and Akinbobola (2011). in their investigation of the "Causal Relationship between Budget Deficit and Inflation" adopt the Granger causality pair-wise approach. The empirical analysis revealed a positive relationship between fiscal deficit and inflation and a unidirectional causality from fiscal deficit to inflation and further that budget deficit affects inflation directly and indirectly through fluctuations in exchange rate in Nigeria. This study therefore recommends "that government should improve on her tax revenue generation and other source of income but limit herexpenditure to growth enhancing projects".

Olusoji and Oderinde (2011) used Robust-Yammamoto Granger non-causality test in examining the causal link betweeninflation and fiscal deficit in Nigeria for the period of 1970 to 2006. The result revealed that there is no clear evidence of causality between fiscal deficit and inflation in Nigeria.

Ezeabasili, Mojekwu and Herbert (2012) explored the Relationship between Fiscal Deficits and Inflation in Nigeria from 1970-2006. The study employed Vector Error Correction model (VECM) and two stage Engel Granger approachfor the analysis. The empirical analysis indicated an insignificant positive relationship between fiscal deficit andinflation and a significant long - run positive relationship between money supply and inflation in Nigeria. The study further posited that money supply is procyclical and has the tendency of growing faster than inflation rate.

Dockery, Ezeabasili and Herbert (2012), investigated the "Long-term Relationship between Fiscal Deficit and Inflation for Nigeria" utilizing the modeling approach of cointegration and vector error correction model (VECM). The result of this study also showed an insignificant positive relationship between fiscal deficit and inflation and a link to the previouslevels of fiscal deficit and inflation. This result further emphasized the existence of significant positive relationship between money supply and inflation. Furthermore, from the impulse response and variance decomposition analysis, thestudy also revealed that the duration of inflation determines the speed of adjustment of an economy from shock to a longrun equilibrium state. The study therefore recommends that "government should rely more on borrowing in financial markets than on debt monetization"

Awe and Shina (2012), explored the nexus between "Budget Deficit and Inflation in Nigeria" from l980 to 2009. The Vector Error Correction Mechanism (VECM) was used to analyse the correlation between the two variables. The empirical result indicates the existence of a significant causality from budget deficit to inflation and an insignificant causality from inflation to budget deficit. Thus, this led to the conclusion that budget deficit has influence on inflationthrough the mechanism of the quantity of money in circulation in the Nigeria a economy. Against this backdrop, the study therefore recommends "policy measures geared towards balancing the role money supply performs to both budget deficit and inflation"

Ozurumba (2012), in his "Causality Approach to the Relationship between Fiscal Deficit and Inflation in Nigeria" from 1970 t0 2009, used autoregressive distributed lag (ADRL) and Granger causality techniques. The empirical analysis reveals a significant negative relationship between growth in fiscal deficit as a percentage of Gross Domestic Productand inflation, while the Granger causality test reveals a unidirectional causality from fiscal deficit

to inflation in Nigeria. The study therefore, recommends 'policy measures towards reduction in fiscal deficit and growth in the real sectors of the economy".

Bakare, Adesanya and Bolariwa (2014) investigated the relationship between "Growth of Budget Deficit/GDP, Money Supply, Growth of External Debt/GDP and inflation in Nigeria" from 1975 to 2012. The study employed co-integrationand error correction model. The empirical results indicate the existence of long run equilibrium relationship between the variable in the model also that the estimated co-efficient of ECM revealed that about 132 percent of the short run errors adjusted to long run equilibrium state. The study that "Nigerian government should demonstrate high sense oftransparency in its monetary and fiscal operations in order to curb high prevalence of money supply to reduce inflationand external debt in Nigeria".

Imegi (2014) attempted to ascertain the extent to which budget deficit causes inflation in Nigeria for a period of eleven(11) years spanning from 1998 to 2009 using Ordinary Least Squares (OLS) technique. The result of our analysisrevealed an adjusted R-Square value of0.821, which means that budget deficit is responsible for about 82 percent of the level of inflation in the economy. It is there fore recommended that for the Nigerian economy, the Government should:consider minimizing budget deficit to an optimal level such that it can increase aggregate demand to promote investmentand employment. More so, a structural approach should be adopted such as investment in tourism and expansion ofagricultural production by creating more incentives for these sectors.

Orgi, Onyeze and Edeh (2014) investigated the causal relationship between inflation and fiscal deficit in Nigeria from 1970 to 2010 using OLS and granger causality tests for the analysis. The result showed that although fiscal deficit causes inflation, there was no feedback between inflation and fiscal deficit deflated by the GDP. The structural model ofinflation revealed that, it takes about two years for the fiscal deficit to impact on inflation in Nigeria. The study concluded that what should be of paramount concern to policy makers as regards to inflation should not so much be the level of fiscal deficit but the sources of its financing as well as the absorptive capacity of the economy. Thus, policies to tame inflation should have inbuilt ability to increase the productive capacity of economy.

Anfofum, Yahaya and Suleman (2015) conducted a research on "The Relationship between Inflation and Fiscal Deficitin Nigeria" from 1970 to 2012. They carried out Unit Root Test, co-integration and Error Correction Analysis and Granger Causality test respectively. Also, CUSUM and CUSUMQ statistics was used to test the stability of the model. The empirical analysis indicates a positive relationship between fiscal deficit and inflation and further that the speed of short run dynamics adjustment to long run equilibrium was sluggish. Also, the result of the Granger Causality test showedthe presence of a unidirectional causality from fiscal deficit to inflation, while the result of the CUSUM and CUSUMO statistics indicated that the model is stable. The study therefore, recommends "policies towards fiscal management that generates increased revenue, promotes increased agricultural produce and effective reduction in external debt" Based on the literature reviewed so far, the effect of fiscal deficit on inflationary pressure had generated an inconclusive debate. The source of such division can be traced to the diverse theories on the subject matter. This present study after reviewing various approaches or theories adopted the structural theory of inflation.

Also, the empirical evidence of the relationship between fiscal deficits on inflationary pressure has so far been mixed. The review of empirical literature also revealed that the existing studies on the relationship between fiscal deficit and inflationary pressure were mainly concerned with the impact of fiscal deficit and economic growth, fiscal deficit and

macroeconomic performance, fiscal deficit and interest rate, fiscal deficit and public debt among others. These studies adopted some of the following analytical tools: Ordinary Least Square (OLS), ARDL, VECM, Granger causality test,Toda Tamamoto granger non-causality test and among others in their analysis. In summary, this study deviates from theabove studies by examining the impact of Fiscal Deficit (FD) on Inflationary Pressure (IP) specifically regressing IP=f(FD, EXR, MS, RGDP) and employed econometric modeling technique of Co-integration/Error Correction Mechanism (ECM). This study also covers a wider period, from 1990 to 2024. The need for a deep investigation of the effect of fiscal deficit on inflation necessitates a deviation of this study from the above studies.

3.0 Analytical Framework

Data used for this study were obtained from various sources, the Central Bank of Nigeria (CBN) statistical bulletin, National Bureau of Statistics (NBS), world tables and the World Bank. This study centered its analytical frameworkthe empirical work of Dockery, Ezeabasili and Herbert (2012). However, this study further modified it by extending the length of period covered by their study and the method adopted in this study. While their study covered the period 1990-2025, employing OLS and VAR, the present study extended the period of investigation to cover 1990 -2025, adopting descriptive statistics, OLS, co-integration as well as ECM to analyze the data within the period under review.

Thus, this generated a functional equation as follows;
IP = F(FD, EXR, MS, RGDP) .....(1)
Where:
IP=Inflation Pressure
FD = Fiscal Deficit
EXR= Exchange Rate Depreciation
MS = Money Supply
RGDP="Real Gross Domestic Product"
Thus, the econometric formofthe model is stated as follows:
$IP=b_0 + b_1 FD + b_2 EXR_1 + b_3MS + b_4RGDP_t+\Upsilon_t$ .....(2)
Where b_i = Parameter estimates (i=0, 1,-----5)
Υ_t=the error term used to represent the effect of government economic reform policies during the period underinvestigation. The a priori expectations are stated as b_1, b_2, and $b_3>0$ while $b_4< 0$.

Accordingly, the log linear inflation - fiscal deficit econometric model is as follows;
Υ_t is the error term derived from the long run relationship.

The maximum Eigen value λ_{max} and λ_{trace} Statistics was employed at 5% level of significance toascertain the number of co-integrating relationship.

4.0 Data Analysis and Discussion

The current specification and estimation of our model requires that we test the time series properties of the data in order todetermine whether or not the variables contain integrated components. Hence, we undertake the standard Augmented Dickey-Fuller (ADF) test (Dickey and Fuller, 1981) and Philips-Perron (PP) (1988) test. We begin with the staticregression analysis before proceeding to test for the problem of stationarity.

IP = 280.61 -3.26FD-1.1162LOG(EXR) + 6.3389LOG(MS)- 39.6303LOG(RGDP).....(3)
(2.3046) (-0.2682)(-0.3094) (1.5179) (-2.1741)
R-square =0.1519, Adj-R^2 =0.0649, F-stat = 1.746, DW= 0.910
(The values in parenthesis are the t-values)

Equation (3) presents the static regression results using the E-view Computer software version 7.1. It shows that, the estimated R is 0.1519. This means that about 15.2 percent of the total variations in IP is explained by the independent variables; LOG (FD), LOG(EXR), LOG(MS) and LOG(RGDP). Thus, the remaining 84.8 percent of variations in (IP) isexplained by the exogenous factors represented in the model by the error term υ_t. Also, from the above table, the adjusted R^2 is 6.49 percent which further confirms the above observation. Furthermore, the estimated F- statistics of 1.746 is lessthan $F_{0.05,V1,V2}$ of 2.61 indicating that the overall model is not significant at 5 percent level. The result of the Durbin Watson of 0.9104 is far less than 2. This indicates the existence of a serial autocorrelation. However, the indication of serial autocorrelation is not surprising since it involves time series data. These observations necessitate the testing for long-run relationship in the model.

4.1 The Unit Root Test

Table 1 shows the unit root test results for Inflationary Pressure (IP) model conducted under the condition of an included intercept but no trend. The result of both the Augmented Dickey-Fuller (ADF) and Phillips-Perron (PP) revealed that all the variables were stationary in their first difference. All the selection criterion were appropriately low as expected confirming that there is no reason to doubt the stationarity of the variables in question.

Table 1: Unit Root Test Results

Variables	ADF test Statistic	ADF critical value	PP test statistic	PP critical value	Order of Integration	Remarks
IP	-3.272778	-2.931404	-3.177700	-2.931404	I(0)	Stationary
FD	7.120693	-2.951125	-5.420544	-2.933158	I(1)	Stationary
LOG(EXR)	-5.240717	-2.933158	-5.238048	-2.933158	I(1)	Stationary
LOG(MS)	-3.460147	-2.933158	-3.284846	-2.933158	I(1)	Stationary
LOG(RGDP)	-5,121244	-2.933158	-5.089973	-2.933158	I(1)	Stationary

Note: Critical Values at 5% level of significance
Source: Author's Computation (2014)

4.2 Co-integration Test

Tables 2 and 3 presents the Johansen co-integration test result for the existence of a long-run relationship. The results shows that both the trace test and maximum eigenvalue test indicate one co-integrating vector or equation at the 5 percent level suggesting that there exist a long run equilibrium relationship between Inflationary Pressure (IP) and Fiscal Deficit (FD) in Nigeria within the period under review.

Table 2: Unrestricted Co-integration Rank Test (Trace) for IP, FD, EXR, MS and RGDP

Hypothesized		Trace	0.05	
No. of CE(s)	Eigenvalue	Statistic	Critical Value	Prob.**
None *	0.563445	74.13081	69.81889	0.0217
At most 1	0.362183	39.31944	47.85613	0.2478
At most 2	0.213657	20.43187	29.79707	0.3940
At most 3	0.150370	10.33666	15.49471	0.2557
At most 4	0.079793	3.492579	3.841466	0.0616
Trace test indicates 1 cointegrating eqn(s) at the 0.05 level				
* denotes rejection of the hypothesis at the 0.05 level				
** MacKinnon-Haug-Michelis (1999) p-values				

Source: *Author's Computation (2016)*

Table 3: Unrestricted Co-integration Rank Test (Maximum Eigenvalue) for IP, FD, EXR, MS and RGDP

Hypothesized		Maz-Eigen	0.05	
No. of CE(s)	Eigenvalue	Statistic	Critical Value	Prob.**
None *	0.563445	34.81137	33.87687	0.0386
At most 1	0.362183	18.88757	27.58434	0.4232
At most 2	0.213657	10.09521	21.13162	0.7357
At most 3	0.150370	6.844084	14.26460	0.5077
At most 4	0.079793	3.492579	3.841466	0.0616
Max-eigenvalue test indicates 1 cointegrating eqn(s) at the 0.05 level				
* denotes rejection of the hypothesis at the 0.5 level				
** MacKinnon-Haug-Michelis (1999) p-values				

Source: *Author's Computation (2016)*

4.3 Parsimonious ECM Test Result and Analysis

In order to confirm the existence of a co-integrating vector among the variables, the ECM is employed. This is based on the general to specific rule and the results are presented on equation 4 below.

IP = -8.058846 - 1.00E-05 D(FD(-1)) – 7.504550 DLOG(EXR(-1)) + 14.09269 DLOG(EXR(-2))

(-1.732560) (-0.744199) (-1.083213) (1.999414)

+ 36.0723DLOG(MS) – 74.8954DLOG(RGDP) + 42.4332DLOG(RGDP(-2)) – 0.566618 ECM(-1) ..... (4)

(2.238623) (-2.63021) (1.457339) (-3.8156)

R-square = 0.523217, Adj-R^2 = 0.404022, F-stat = 4.389566, DW = 2.23769

(The values in parenthesis are the t-values)

The result of the parsimonious error correction model analysis in equation 4 shows that about 40.4 percent of the total variation in inflation rate (IP) is explained by the independent variables in the model. The remaining 59.6 percent are due to factors exogenous to the model but covered by the error term. Also, the F-statistics calculated of 4.389 is greater than the table value of 2.61 indicating that the overall model is statistically significant at 5 percent level. The Durbin Watson Statistics of 2.349 indicates the existence of minimal serial correlation in the model. Also, the result further shows that the coefficient of the Error Correction Model (ECM) is statistically significant and rightly signed. This reveals that Inflation Pressure (IP) in Nigeria adjusts by about 57 percent to the explanatory variables.

The result also indicates that the coefficients or (lag1) value of FD and past (lag 2) ofRGDP are wrongly signed while the coefficient of past (lag 2) of EXR, current value of MS and current value of RGDP are rightly signed. Again, the current value of the coefficients of MS and current value of RGDP are statistically significant while the current value of FD, past (lag 2) of EXR and past (lag 2) of RGDP are not statistically significant at 5 percent level. This is evidence from their respective t-value calculated which is less than the t-table value of 2.042.

4.4 Granger Causality Test Analysis

The result of the Granger causality is presented in the table 4 below.

Table 4: Pairwise Granger Causality Tests Results

Pairwise Granger Causality Tests			
Sample: 1970 2013			
Lags: 2			
Null Hypothesis:	Obs	F-Statistic	Prob.
FD does not Granger Cause IP	42	0.21723	0.8058
IP does not Granger Cause FD		0.43343	0.6515
LOG(EXR) does not Granger Cause IP	42	0.18928	0.8283
IP does not Granger Cause LOG(EXR)		0.37364	0.6908
LOG(MS) does not Granger Cause IP	42	0.85630	0.4330
IP does not Granger Cause LOG(MS)		1.09698	0.3445
LOG(RGDP) does not Granger Cause IP	42	1.67892	0.2005
IP does not Granger Cause LOG(RGDP)		2.79593	0.0740

Source: *Author s Computation (2015)*

From table 4 above, we found that there is no significant causal relationship between Fiscal Deficit (FD), Exchange Rate(EXR), Money Supply (MS), Real Gross Domestic Product (RGDP) and Inflation Rate (IP) while a unidirectional causality runs from Inflation Rate (IP) to Real Gross Domestic Product (RGDP) in Nigeria.

4.5 Impact of fiscal deficit and inflation in Nigeria

A budget deficit can have both positive and negative impacts on economic growth, depending on the context and management. Here are some potential effects:

Positive impacts:
1. Stimulating Economic Activity: Deficit spending can boost economic growth by increasing aggregate demand, especially during times of recession or economic downturn.
2. Infrastructure Development: Deficits can be used to finance infrastructure projects, which can enhance economic productivity and growth in the long run.
3. Social Welfare: Deficit spending can also be used to fund social welfare programs, which can improve human capital and reduce poverty.

Negative impacts:
1. Inflation: Excessive deficit spending can lead to inflation, especially if the economy is already growing strongly.
2. Crowding Out: Government borrowing can crowd out private sector investment, potentially reducing economic growth.
3. Debt Burden: High levels of debt can become unsustainable, leading to debt crises and reduced economic growth.
4. Higher Interest Rates: Large deficits can lead to higher interest rates, making borrowing more expensive for consumers and businesses.
The impact of deficits on economic growth depends on various factors, including the size of the deficit, the state of the economy, and the effectiveness of fiscal policy.

5.0 Conclusion

The study empiricallyinvestigated"the impact of fiscal deficit and inflation in Nigeria" from 1990 to 2024 using data fromsecondary sources. The study employed the descriptive statistics, Ordinary Least Square (OLS) regression techniquesand Co-integration/Error Correction Mechanism for its investigations. The Error Correction Model analysis resultsindicated the existence of an insignificant negative relationship between fiscal deficit (FD) and inflation rate in Nigeria. Furthermore, the result of the Pair-wise Granger Causality test did not indicate any significant causal influence betweenfiscal deficit (FD) and inflation in Nigeria. This evidence shows that it is not the level of fiscal deficit (FD) that affects therate of inflation but that adequate attention should be directed towards the effective implementation of tight monetarypolicy in Nigeria.

6.0 Recommendations

1. Based on our findings, this study recommends policy measures geared towards effective management of the macroeconomic variables that exhibit long run positive relationship with inflation. That the paramount concern of policymakers should not be the level of fiscal deficits, but rather it's method of financing, which should not be bymonetization as this method has the tendency of crowding out effect on private sector investments
2. It recommends policies towards the diversification of the economy to encourage the establishment and growth ofimport substitution industries. This will expand the revenue base of the economy and facilitate increase in the level ofdomestic production of goods and services and in the process will stem demand pull, imported, and structural inflationarising from increase in aggregate demand due to monetary expansion resulting from exchange rate depreciation on onehand and on the other hand will promote the export of domestic goods and services that will boost Nigeria's foreignreserve and reduce the nation's foreign debt burden towards the achievement ofbalance of payment stability.
3. That a policy mix of tight monetary policy measures and prudent fiscal management towards price stability and fiscalconsolidation should be pursued especially when budget deficit is the instrument offiscal policy.
4. That the Federal Government of Nigeria should be more pro-active in its anti-corruption policy measures particularlyby adequately funding and granting autonomy to the operations

of the anti-graft institutions such as the Economic and Financial Crime Commission (EFCC) and the Independent Corrupt Practices Commission (ICPC), This will facilitate effective operations of such institutions towards reduction in the level of corruption and in the process stem the rate ofdemand pull inflation.

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