International Journal of Academic Research in Business and Social Sciences
May 2015, Vol. 5, No. 5
ISSN: 2222-6990

Dynamics of Budget Deficit and Macroeconomic Fundamentals: Further Evidence from Nigeria

God's time Osekhebhen Eigbiremolen[1]
Department of Economics, University of Nigeria, Nsukka, Nigeria
Email: eigbiremolen@gmail.com

Nchege Johnson Ezema
Department of Economics, University of Nigeria, Nsukka, Nigeria
Email: ezemajohnson@gmail.com

Anthony Orji
Department of Economics, University of Nigeria, Nsukka, Nigeria
Email: tonyorjiuss@yahoo.com

DOI: 10.6007/IJARBSS/v5-i5/1604 URL: http://dx.doi.org/10.6007/IJARBSS/v5-i5/1604

Abstract
Using quarterly time-series data from 1970-2012, this paper examines the responses of budget deficits to selected macroeconomic fundamentals in Nigeria. Although budget deficit responds with a positive movement for every one standard deviation positive shock to real gross domestic product at the early stage, subsequent positive shocks or variations in real gross domestic product elicit a negative response from budget balance right from the 10th period down to the 172nd period. Budget deficit shows signs of decline at the initial stage in response to a positive innovation in real interest rate. However, this response normalized to a positive one as from the 11th period and remains so all through the periods under review. As more money is released into the economy, budget deficit responds to this positive shock in money supply with a continuous decline all through the periods under review. Implicit, but central to these responses by budget deficit is that private sector investment remains the key to an economic growth that will not mortgage a country's future for today's survival.

Keywords: Budget deficit, Macroeconomic Fundamentals, Dynamic stability, Vector Autoregressive, Nigeria
JEL Classification: C22; C32; E17; E60; E62;

1. Introduction

Throughout the world, the processes for determining how to raise, allocate and spend public resources constitute one of the foundations of government (Overseas Development Institute,

[1] Corresponding author

2004). These processes can be summarized as budgeting, implying that budgeting is one of the principal functions of government. In fact, it is adjudged the single most important function of government (Organization for Economic Cooperation and Development (OECD), (2002); National Democratic Institute (NDI), 2003). This assertion is supported by the conceptual consideration of budgeting as one of the most rational and acceptable means through which governments allocate resources to provide the goods and services needed to improve the well–being of people (Osanyintuyi, 2007). In other words, budget provides the instrument and basis for resource mobilization and allocation to government strategic areas and national priorities in order to meet macroeconomic objectives (Omolehinwa, 2001; Olomola, 2006). It is the extent to which these objectives are achieved that provides the opportunity to make the citizens of a community better off.

Unfortunately, the budgetary process in Nigeria is said to be fraught with imperfections and abuses. Such abuses manifest in the forms of unsustainable and unjustifiable extra budgetary expenditure actuated by obvious disregards to budgetary rules and procedures, lack of budget integrity, budget indiscipline among others (Aruwa, 2004; Olomola, 2006; Olaoye, 2010). Budget discipline connotes the extent to which an institution or nation stays within the budget or better still, the ability of government to confine itself to the limit of expenditure in the approved budget or supplementary budget (Aruwa, 2004). It is measured as the ratio of budgetary expenditure to actual expenditure. According to Oshisami (1992) and Omolehinwa (2001), there are three principal areas or dimensions of budget discipline. These include; adherence to stated budgeting policies without wavering; adherence to budget calendar in the development, approval, implementation and monitoring as well as adherence to approved estimates in the appropriation act. These three levels of discipline (summarized as policy discipline, timing discipline and numerical discipline respectively) are crucial for the effective working of the budget, as a breach in any level constitutes indiscipline. According to Ben–Caleb and Agbude (2011), indiscipline in the management of resources is iniquitous to the economic progress of any nation. A budget deficit for instance (especially unplanned deficit) is a manifestation of budget indiscipline, and have been found to have a strong positive association with corruption (Kaufman, 2010). This implies that the more disciplined a nation is, the less the tendencies to be corrupt. In other words, budget discipline is one of the antidotes of corruption.

The Nigerian experience shows the lack of transparency, accountability and discipline. The absence of all these virtues that span across good budgeting and good governance explains the reason behind the perennial crisis of development in the country. The status of underdevelopment in the country is indeed alarming despite the fact that Nigeria is reputed to range between the 6^{th} and the 8^{th} largest oil producing countries in the world. How best can this crisis of development be resolved in this country? In 1970, Nigerian's budget deficit was -455.1, i.e. -8.8% of GDP. But in 1971, Nigeria recorded a surplus of 171.6, i.e. 2.6% of GDP. Therefore the deficits grew at the rate of -138%. In 1972, however, a deficit of -58.8 resulted and subsequently at a growth rate of -134%. But in 1973, a surplus of 166.1 resulted at a growth rate of -382%. In 1974 also, the fiscal operation resulted in another surplus of 1796.4 at a growth rate of 982%. But in 1975, the deficit of -427.9 re-occurred at a growth rate of -124%.