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Budget deficit and inflation in Nigeria : a causal relationship

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ABOUT

Abstract

The study investigates the nature and direction of causality among the two variables. This is with a view to providing empirical evidence on budget deficit operation in stimulating economic growth through inflation in Nigeria. Secondary data were used in this study. Data on inflation rate, exchange rate, Gross Domestic Product (GDP) and budget deficit were collected from statistical Bulletin and Annual Report and Statement of Account published by the Central Bank of Nigeria (CBN) and the International Financial Statistics (IFS) published by International Monetary Fund (IMF). Granger Causality pair wise test was conducted in determining the causal relationship among the variables. The result showed that there was no causal relationship from inflation to budget deficit ($F = 0.9$, $P > 0.005$), while the causal relationship from budget deficit to inflation was significant ($F = 3.6$, $P < 0.05$). This implies that a uni-directional causality from budget deficit to inflation exist in Nigeria. Furthermore, the result showed that budget deficit affects inflation directly and indirectly through fluctuations in exchange rate in the Nigerian economy.

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