

## **BUDGET DEFICITS, EXTERNAL DEBT AND ECONOMIC GROWTH IN NIGERIA**

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The necessity for governments to borrow in order to finance deficit budgets has led to the development of external debt. This study examines how the use of budget deficits as an instrument of stabilization leads to the accumulation of external debt with the attending effects on growth in Nigeria between 1970 and 2003. By synthesizing a relationship between budget deficits and external debt the study shows the implications on economic growth of conducting a fiscal policy within the contexts of debt stabilization and debt sustainability. The results of the econometric analysis confirm the existence of the debt Laffer curve and the nonlinear effects of external debt on growth in Nigeria. The study concludes that if debt-financed budget deficits are operated in order to stabilize the debt ratio at the optimum sustainable level debt overhang problems would be avoided and the benefits of external borrowing would be maximized.