An Analysis of the Impact of Government Budget Deficits on Economic Performance. A Zimbabwean Perspective

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Abstract : This research analyses the impact of budget deficits on the economic performance of Zimbabwe. The study employs the autoregressive distributed lag (ARDL) confines testing method to co-integration and long-run estimation using time series data from 1980-2018. The Augmented Dick Fuller (ADF) and the Granger approach were used to testing for stationarity and causality among the factors. Co-integration test results affirm a long term association between GDP development rate and descriptive factors. Causality test results show a unidirectional connection between budget shortfall to GDP development and bi-directional causality amid debt and budget deficit. This study also found unidirectional causality from debt to GDP growth rate. ARDL estimates indicate a significantly positive long term and significantly negative short term impact of budget shortfall on GDP. This suggests that budget deficits have a short-run growth retarding effect and a long-run growth-inducing effect. The long-run results follow the Keynesian theory that posits that fiscal deficits result in an increase in GDP growth. Short-run outcomes follow the neoclassical theory. In light of these findings, the government is recommended to minimize financing of recurrent expenditure using a budget deficit. To achieve sustainable growth and development, the government needs to spend an absorbable budget deficit focusing on capital projects such as the development of human capital and infrastructure.

Keywords : ARDL, budget deficit, economic performance, long run
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