

Abstract

This research handles financing through deficit in the budget of the state; it is a policy propounded by the economist John Maynard Keynes. He propounded it to treat the unemployment in the capitalist countries in his time.

Then an intellectual current appeared that supported this policy and adopted it in financing economic development and bridging the gap in resources in developing countries. An opposing intellectual current doubted the efficiency of this policy in these countries of inflexible productive system .It warned about its sequences on economic stability , economic development and the fairness of distribution of income .This study focuses on studying the effect of financing through deficit on the Sudanese economy in the twenty years from 86/87-2005

The Objectives of the study are:

- 1- Knowing the causes behind the adoption of this policy in Sudan.
- 2- Researching the effect of this policy on Sudanese economy in this period.
- 3- Knowing how Islamic economy treats this policy.
- 4- To decide, after the findings, whether to continue or evade this policy.

The research adopted the case - study method and the statistical method. The study came to find the sequences of the relations between financing through deficit and the macro economic indicators during the period of the study by using the Statistical Package of Social Sciences program (SPSS). The hypotheses of the study are as follow:

- 1- Inflation financing has bad effects on economic activity.

This hypothesis was proved in the study.

2- The success of Inflation financing policy requires a flexible productive system; so it doesn't suit the

Economies of the developing countries. This hypothesis was proved.

3- The inflation financing leads to imbalance in the distribution of the national income. Despite the increase in money supply there will still be increase in demand.

4- As the central bank is not fully independent, so financing through deficit increased. The hypothesis is emphasized by that: Article 57 of Central Bank Chart for the year 1959 that is concerned with temporal loans to the state undergoes a continuous change; and is emphasized also by the turnover rate of central bank governors.

5- Most of inflation financing in Sudan is directed to unproductive activities. This hypothesis is clear from comparing development financing and the financing of government expenditure percentages. The research has come to other findings and recommendations.