

Intergenerational Causality Effect of External Debt on Performance of the Nigeria Economy (Revised Version)

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Abstract

This research work empirically investigate the intergeneration effect of foreign borrowed fund on performance of Nigeria economy using data from the CBN statistical bulletin spanning from 1981 – 2014 with the help of some estimating tools which includes among others OLS, Phillip Perron test, co-integration test, and granger causality test to investigate the direction of causality between the variable used in the process of research. Finding reveals from the result of the OLS that MLD and TMS which are proxy for external debt has positive and significant relationship to economic growth except for BLD which reveals a significant but negative relationship with economic growth which suggests that using borrowed fund for infrastructural, production and manufacturing project will stimulate economic performance and hence promote economic growth in the economy and reduce the fear of transferring the present debt to the future generation. We hereby recommend that when government is increasing her spending through (external debt), they must be meticulous about the sector of the economy in which such advances is channel towards. As Increase in government spending centred at agriculture, manufacturing, entrepreneur and productive sector of the economy will definitely stimulate economic growth and hence crowd in more investment. While increase in government spending on the non-productive sector (current consumption) of the economy will spontaneously crowd out private saving, investment and increase the intergenerational effect in Nigeria.

Key words: MDL, BLD, GDP, TMS

1.0 INTRODUCTION

Inadequacy of fund on the side of the government to execute capital project is what constitutes debt. This projected that government needed to source for fund in financing its deficit either through domestic debt, external debt or implementation of monetary instrument to increase the flow of fund in the economy. However, financing the state of an economic through prolong borrowing from foreign country has a repel effect on the performance of such economy by scraping out sole investors due to high interest rate. The idea of borrowing abroad generates its source from fiscal policy.

Consequently, authority of developing countries usually borrow fund either from abroad or internally for two major reasons which includes, to stimulated economic growth through investment opportunity or to meet its citizen consumption obligations by borrowing to finance current consumption and to finance her deficit budget. Meaning that borrowed fund is targeted toward stimulating economic performance and ameliorate the living conditions of the people. The predominant concern of many developing nations with are usually faced with the problem of high debt servicing due to mismanagement and misappropriation of borrowed fund is to ensure and maintain recurrent economic performance which will trigger economic stability.

External debt is acquired in order to finance budget deficit and speed up economic activities; hence, external debt should result to economic growth of a nation. Empirical finding has reveals that for prompt economic growth especially in the developing countries some quantum of borrowed fund is essential either internally of internationally. Whether or not borrowed fund will lead to debt overhang if a function of expected returns from the investment in which borrowed fund are injected into. Using borrowed fund for current consumption will automatically bring about debt overhang and

intergenerational debt transfer which will in turn increase debt servicing cost on the future generation. Mine while, if borrowed fund is centred toward capital investment whose expected return is greater than the borrowed fund then paying off the borrowed fund will not be a problem as it will steer the opportunity of borrowing more due to prompt repayment hence stimulate economic performance. (Shabbir, 2009). Attempt by countries to service her borrowed fund on time is very essential as prolong unpaid debt has a ripple effect on the economy which hereby leads to overhanging constraints and hence place the economy in a state of stagnancy as the entire economy will experience low level of fund in circulation, low level of saving, low level of investment and downsize level of output which create high level of unemployment in such country. The ripple effect of poor or in prompt debt servicing is that it militates against rapid economic performance which will reflect on all the sector of the economy.

Understanding the pre and post independent economic history of debt in Nigeria is essential. This gives an in depth knowledge of identifying the sources of the debt and how to hedge against the crisis of borrowed fund especially the foreign borrowed funds so as to achieve outstanding economic performance. It is observed that inability to service her debt promptly has been debarring the country from enjoying foreign portfolio and foreign direct investment and all other across the border transaction in Nigeria which is seriously affecting the capital market and the economy at large. Despite the fact that the Nigeria government has been servicing her external debt with about US 2.0 billion annually between 1991 and 1997 her debt stock is yet to be reduced. This could have amounted to series of reasons. Majorly most developing countries like Nigeria find it difficult in using borrowed fund judiciously such that it will regenerate better level of returns. Borrowed funds are most time spent on current consumption and not on capital investment which will stimulate production and geared economic performance. In some countries, the marginal revenue on investment in which borrowed funds are centred toward is less than the marginal expenditure and hence prepayment will be difficult. While other countries tagged their inability to service debt on the bad policy framework of the government on debt management.

The argument of whether or not debt burden is transferred to the future generation has been a point of great contention between Barro's provocative hypothesis who opted that government fiscal policy is irrelevant and Lerner's view. Barro's provocative hypothesis argues that increase in government spending leads to intergenerational burden on the future generation while Lerner's is of the opinion that increase in government spending if properly integrated on capital investment which contributed to increased productive capacity might not instigate intergenerational effect. This research work is hereby designed to examine the intergenerational outcome of foreign borrowed funds on the Nigeria economy and to however evaluate which of the conditions above hold in the Nigeria context. That is either Barro's hypothesis or Lerner's view.

Study objectives

Generally, the study objective is to examine the intergenerational outcome of foreign borrowed funds on the performance of the Nigeria economy.

- i. To empirically assess how foreign borrowed funds stimulate economic performance in Nigeria
- ii. To statistically investigate how total money supply influences the economic output in Nigeria.

Research Hypotheses

The study formulated three hypotheses in their null form as a guide to achieve the objectives of the study:-

Ho1: foreign borrowed funds does not significantly relate to economic output in Nigeria.

Ho2: Total money supply does not significantly relate to economic output

Significance of the study.

The findings of this study will be of a great importance to policy maker, investors, regulators, researcher and financial analyst who have vested interest in understanding the intergenerational feedback of foreign borrowed fund on economic performance.

Organization of the study.

This research work is stratified into five different sections. Section one contained the introduction of the study, section two consist of the theoretical and empirical review, section three discuss the methodology, section four present the empirical findings while section five give the summary, concluding remark and recommendation.

2.0 LITERATURE REVIEW

Theoretical Framework

To achieve the central intension of this research work, three major theories of debt are consulted which includes “debt” overhang theory, Barro’s provocative hypotheses and Lerner’s view. The bases of debt overhanging theory is on the fact that economic performance of a country will be spontaneously affected due to the inability of a country to service her debt for a long period of time, which may likely becomes a burden on the future generation an hence block other avenue of borrowing externally. In this case, the country is only left with the option of combating with internal borrowing which brings about high level of competition between private investors and the government hence crowd out private investor due to high governmental demand for loan resulting to skyrocket interest rate, (Claessens, 1996). Barro’s provocative hypotheses is of the opinion that increase in government spending leads to intergenerational burden on the future generation while Lerner’s is of the opinion that increase in government spending if properly integrated on capital investment which contributed to increased productive capacity might not instigate intergenerational effect.

Lerner’s view

Lerner argues that if borrowed fund from abroad is used in financing current consumption, it is possible that intergenerational effect is likely to take place. That is, if the government of a country borrow to finance present consumption of her economic like borrowing to pay salary, and all other activities that those not yield profitable returns, then future generation will definitely be burden. Conversely, if borrowed loan is used to finance capital investment where the generated returns from such investment is great than the borrowed fund, then no debt burden will be transfer to the future generation.

Researcher’s opinion

The researcher here is of the opinion that, the irrelevance of government fiscal policy as opted by Barro’s provocative hypothesis is no justifiable enough. Whether or not the debt burden will be transfer to the future generation is a function of expected returns on the investment in which the fund (borrowed fund) is lunch into. Consider a situation where the borrowed fund is centred on a capital investment which contributed to increased productive capacity such that the generated revenue from the investment is greater than the borrowed fund and hence debt burden is not transfer to the future generation. Then, government fiscal policy became relevant while Ricardo theory will only hold when returns from investment are less than the borrowed fund.

The Dual Gap Analysis:

This theory is proposed on the condition that state thus, to achieve a reasonable level of development in an economy, investment is a key player. However, such investment cannot be successively achieved without huge domestic savings meaning that for a country to achieve a sustainable level of development, investment and huge domestic savings in required. However, in attaining comprehensive growth, this domestic savings and investment is not sufficient enough hence there is need to borrow fund from abroad. This implies that the combination of domestic savings, investment and foreign borrowed fund is a function of economic development as opted by this theory.

Overhang Debt Theory:

The term above occurs when the lump sum of a countries debt exceed her capacity to repay in the future. This theory argues that inability of a country to service or repay her debt promptly has a ripple effect on the present generation as well as the future generation. The present generation may experience low level of money flow in the economy which will bring about low level of investment, high level of unemployment, and low level of output and downsize economic growth and finally debar opportunity of further borrowing from abroad. Hence, the inability of the present generation to service the borrowed fund may be transfer to the future generation as a debt burden.

The Liquidity Constraint Hypothesis:

This theory argues that high level of pressure place on the developing country by the foreign lender make it difficult for the less develop countries to borrow considering the fact that they may find it difficult to service such debt hence they fall back to local borrowing which end point is to crowd out private investors. High governmental demand for loan-able fund due to inability to borrow from abroad resulting from high debt servicing pressure bring about high level of competition between the government and the private economy which will in turn lead to crowding out effect.

Conceptual framework

As earlier stated by dual gap analysis, to achieve a reasonable level of development in an economy, investment is a key player. However, such investment cannot be successively achieved without huge domestic savings meaning that for a country to achieve a sustainable level of development, investment and huge domestic savings in required. However, in attaining comprehensive growth, this domestic savings and investment is not sufficient enough hence there is need to borrow fund from abroad. This implies that the combination of domestic savings, investment and foreign borrowed fund is a function of economic development as opted by this theory. Inability to service borrowed fund transpire into debt burden for the future generation and hence hinder the opportunity of further access to foreign fund. Mine while, the major challenges of the developing countries are, those borrowed funds are most time not use for the purpose for which it was obtain. Some used borrowed fund to service their current expenditure like wars, insurgency, country expenses, Etc. while other inject borrowed fund on project that yield less return compeer to borrowed fund which makes it repayment difficult. On this noted, for developing country to attain the expected height, borrowed fund must be injected into investment whose expected returns is higher than the borrowed fund to ensure prompt debt servicing and hence foster economic growth.

Empirical framework

Tajudeen Egbetunde, (2012) investigate the external borrowing and the growth of the Nigeria economy. *Various estimating tools were applied which include OLS among others. study reveals that growth performance has a long run association with external debt, domestic debt and debt servicing in Nigeria. The evidence of positive association exist among growth indicators and foreign borrowed fund as well as domestic debt and economic growth was found at $p < 0.05$ in the economy, while debt services were negatively impacted on economic growth at $p < 0.05$.*

(Ishola Saheed et al 2013) examine the effect of foreign borrowed fund on the Nigeria economy using external debt value from the CBN statistical bulletin and prime lending rate as a proxy for external debt while RGPD was used as proxy for economic growth appealing OLS estimating tools, from the output of the test, it was discovered that foreign borrowed fund and prime lending rate caused about 12.3% fluctuation in the growth of the economy. They however recommend that government should initiate and develop policies that will address the fundamental cause's external debt. Sequel, to this, he recommended that fundamental policies should be put in place to control the quantum of external debt consume. (Mbanasor Christian and Okere peter, 2012) examine whether foreign borrowed fund is a tools for or threat to the growth of the Nigeria economy. in carrying out this studies, data were sourced from the CBN statistical bulletin using OLS estimating tools. Findings reveal that external borrowed fund is positively related to economic growth hence government should ensure proper debt management so as to stimulate future growth. Shehu Usman and Aliyu Mamma, (2013) investigated

the contribution of foreign borrowed fund on the growth of the Nigeria economy. The study captures a period of 1970 to 2010 while data were obtained from the CBN statistical bull. GDP was used as proxy for growth while five other variable was proxies as debt indicators. Three different estimating tools was used in the process of analysis and finding reveals that foreign borrowed fund has a direct flow toward economic growth in Nigeria. Suna Korkmaz,(2015) study the nexus between economic growth in turkey and external debt. VAR estimating tools and a data spanning from 2003 to 2014, finding reveals that *external debt was found unidirectional causality from economic growth*.

Dereje Aber,(2010) carry out a research work by evaluating whether foreign borrowed fund influence the development of selected underdeveloped African countries through crowding out effect and debt overhanging. In other to achieve study objectives, eight Africa counties with huge foreign debt were examined spanning from 1991 to 2010. Result reveals that inability of the poor African country in servicing foreign borrowed funds debars them from borrowing internationally and hence resort into domestic borrowing which lead to crowding private investors. Ezenwa Chinelo,(2012) investigated the contribution of foreign borrowed fund on the growth of the Nigeria economy. the study capture between 1970 to 2010 while data were obtained from the CBN statistical bull. Three different estimating tools was used in the process of analysis and finding reveals that foreign borrowed fund has a direct flow toward economic growth in Nigeria. Findings exposes that foreign borrowed fund stock inhibit the speed of the Nigeria economic growth through increasing the debt service cost above the sustainably debt limit. While no nexus was found between foreign borrowed fund and economic growth. Fosu (1999) investigated the external debt over the economic growth of the sub-Sahara African countries spanning from the debt crisis period 1980 to 1990 using augmented production function. The causality flow of debt overhang hypotheses was the major intention of Fosu. The hypotheses which opted that foreign borrowed fund debt servicing condition impose negative effect on the developing countries which make economic development through investment almost impossible. According to Ajayi Lawrence and Oke Michael(2012), take an empirical look on the trend of foreign borrowed fund on the development and growth of the Nigeria economy using lease square regression analysis with data source from CBN statistical bulletined, Output of the research work report a ripple effect flowing between foreign debt burden and the general economy level of income. According to them, high quantum of foreign borrowed fund bring about reduction in the value of a country currency, reduction in the economical work force, increase level of poverty and generally economic imbalances. Sequel to this, they recommended that borrowed fund should be channelled toward profitable investment whose return will be sufficient enough in paying off the borrowed fund and hence stimulate economic growth. Ibi Esor and Aganyi Alfred (2015) examined the influence of external borrowed fund on the growth of the Nigeria economy using vector auto-regression (VAR), impulse response and variance decomposition. Findings justifies that there is a weak nexus between the foreign borrowed funds and the Nigeria economy suggesting that excessive borrowed external borrowed fund may not significantly influence economic performance. The output of the findings also reveals those external borrowed funds is not a yield stick in predicting or forecasting improvement or slowdown in the Nigeria context. On this note, he suggested that the watchword of the Nigerian authority should be high sense of fiscal discipline and right state of mind in appropriating borrowed funds so as to ensure judicious usage and hence stimulate sustainable performance of the overall economy.

3.0 METHODOLOGY.

Model Specification

This model is adapted from the work of Tajudeen Egbetunde,(2012). He used it as a measure in analysing effect of external debt on the Nigeria economic performance. Hence, this model is modified to suite the purpose of this research work. We specified that GDP is an indicator of economic performance while multilateral debt/creditor, bilateral debt/creditor and total money supply are proxies for external debt.

Gross Domestic Product (RGDP): is employed as dependent variable in this study to capture economic growth. By this, we mean, the monetary worth of all production output and service outlet

produced in a geographical confine over a particular time frame adjusted for inflation. It is measured in millions of Naira.

Multilateral Creditors this comprises of various quantum of fund borrowed externally from different international financial organisations including World Bank and others. Such fund form part of the foreign borrowed fund.

Bilateral Creditors: Funds obtained from this creditors are usually for economic development purposes. This include loan obtain from Paris club and so on.

Total money supply: This is the quantum of money injected into the economy in form of liquid money.

Note that multilateral creditors and bilateral creditor are proxies for external debt

We hereby formulate the research model which reveals the nexus between foreign borrowed fund and the Nigeria economic performance.

The model is stated in its null form below

$$RGDP = f(MLD, BLD, TMS) \text{ ----- (1)}$$

In econometrics, equ (1) above is insufficient resulting from absence of error term. Hence, we express the below equation in a functional relationship using linear regression model by introducing constant and error term, hence we have;

$$GDP_t = \beta_0 + \beta_1 MLD_t + \beta_2 BLD_t + \beta_3 TMS_t + \mu_t \text{----- (2)}$$

The model is further transform into log linear model to avoid outliers

$$\ln GDP_t = \beta_0 + \beta_1 \ln MLD_t + \beta_2 \ln BLD_t + \beta_3 \ln TMS_t + \mu_t \text{----- (3)}$$

On apriori $\beta_1, \beta_2, \beta_3 > 0$

Where:

- RGDP = Gross Domestic Product
- MLD = Multilateral creditors/debt
- BLD = Bilateral creditor/ debt
- TMS = Total money supply
- β_0 = Constant
- β_i = Estimation parameters
- μ = Error term

Sources of Data

The data employed for this investigation are mainly secondary time series data spanning from 1981-2014. This data is sourced from CBN Statistical Bulletin and Annual Reports 2013 and past empirical studies relating to this study.

4.0 Data Analysis and Interpretation

Phillips Perron unit root test

Considering the underlying shocks in the time series variable and also some shock which could be found in the error terms, we therefore intend to capture the stationary of the employed variable. Hence, this will help in forecasting and predicting a great possible effect of the shock, while non-stationary data are not suitable for long run test. Phillips Perron unit root test is applied in testing the various level stationality of the data so as to hedge against spurious result. Its output is stated below.

Table 1

Variable	Phillips perron stat	critical val	level	order	remark
GDP	-9.69833	-2.95402		1(0)	stationary
TMS	-5.99244	-2.95402		1(0)	stationary
BLD	-6.88865	-2.95402		1(0)	stationary
MLD	-3.21944	-2.95402		1(0)	stationary

The result of the Phillips Perron test above exposes that all the variable used in the process of research are stationary at level which suggest absence of spuriocity and hence we can proceed to test for long run co-integration between those variable to identify their level of long run association.

Table 2

Date: 02/11/16 Time: 22:54
Sample (adjusted): 1984 2014
Included observations: 31 after adjustments
Trend assumption: Linear deterministic trend
Series: GDP TMS MLD BLD
Lags interval (in first differences): 1 to 2

Unrestricted Cointegration Rank Test (Trace)

Hypothesized No. of CE(s)	Eigenvalue	Trace Statistic	0.05 Critical Value	Prob.**
None *	0.901956	120.8085	47.85613	0.0000
At most 1 *	0.574560	48.81596	29.79707	0.0001
At most 2 *	0.506755	22.32237	15.49471	0.0040
At most 3	0.013239	0.413143	3.841466	0.5204

Trace test indicates 3 cointegrating eqn(s) at the 0.05 level

* denotes rejection of the hypothesis at the 0.05 level

**MacKinnon-Haug-Michelis (1999) p-values

Unrestricted Cointegration Rank Test (Maximum Eigenvalue)

Hypothesized No. of CE(s)	Eigenvalue	Max-Eigen Statistic	0.05 Critical Value	Prob.**
None *	0.901956	71.99256	27.58434	0.0000
At most 1 *	0.574560	26.49359	21.13162	0.0080
At most 2 *	0.506755	21.90923	14.26460	0.0026
At most 3	0.013239	0.413143	3.841466	0.5204

Max-eigenvalue test indicates 3 cointegrating eqn(s) at the 0.05 level

* denotes rejection of the hypothesis at the 0.05 level

**MacKinnon-Haug-Michelis (1999) p-values

The result of the joanson co-integration test reveals that there is three co-integrating equation judging by the probability level against the alpha level of 5% which suggest that there is a long-run association between all the variable used in the process of research hence, we can proceed to error correction model

Table 3

Dependent Variable: GDP

Method: Least Squares

Date: 02/11/16 Time: 23:00

Sample (adjusted): 1982 2014

Included observations: 33 after adjustments

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	957.5419	470.6247	2.034619	0.0515
TMS	2.499388	0.194751	12.83375	0.0000
MLD	12.16576	2.894614	4.202897	0.0002
BLD	-25.85616	5.915654	-4.370804	0.0002
ECM(-1)	0.628965	0.172379	3.648734	0.0011
R-squared	0.986589	Mean dependent var		11200.76
Adjusted R-squared	0.984674	S.D. dependent var		14211.33
S.E. of regression	1759.363	Akaike info criterion		17.92202
Sum squared resid	86670064	Schwarz criterion		18.14876
Log likelihood	-290.7133	Hannan-Quinn criter.		17.99831
F-statistic	514.9734	Durbin-Watson stat		1.196206
Prob(F-statistic)	0.000000			

Parsimonious (ECM) is used in checking the pace of adjustment in the short run equilibrium state to the long run equilibrium state. The output of the (ECM) is discussed below.

From the output, all variables used in the process of research are positive and significantly related to economic growth except for BLD which is significant but negatively related to economic performance. Mine while, starting from the relative statistics, judging by 5% level of significant,

The output of this result is in form with the work of other researcher. However, from the regression analysis, we observe that BLD and MLD which are proxy for external debt are positive and significantly incline in explaining economic performance in Nigeria. It the result of this finding is very meticulous. It was observed that out of the multilareral debt and bilateral debt which make up the foreign debt or external debt, only the multilateral debt is positive and significant enough in stimulate economic growth will the bilateral debt is however also significant but negatively related to economic growth. Meanwhile, many empirical findings like that of Ezenwa Chinelo,(2012), and Alfred(2015) has revealed that external debt is negatively related to economic growth and hence it should be discouraged. However, in this study, we discover that the bilateral counterpart of the debt is what constitutes the negativity of the external debt and its influence on the economic growth. simply stated, if borrowed fund are judiciously utilised for the purpose for which they are meant for, the general economy will experience more growth flowing from the government sector even to the private sectors and the intergenerational effect as stated by Barro provocative hypotheses might not hold since the actual returns from the invested fund will be greater than borrowed fund itself. Mine while, the global statistic which comprises of the R2, Durbin Watson, F statistic and so on. The adjusted R2 value is 0.98 which shows that about 98% fluctuation in the predictive variable is captured and explained by the explanatory variable. The Durbin Watson result is still within the acceptable trend while it shows the present of serial correlation and the F statistic reveals the overall significance of the variable.

Table 4

Lamgranger serial correlation test

Breusch-Godfrey Serial Correlation LM Test:

F-statistic	2.883436	Prob. F(1,22)	0.1036
Obs*R-squared	3.244577	Prob. Chi-Square(1)	0.0717

Test Equation:

Dependent Variable: RESID

Method: Least Squares

Date: 03/18/16 Time: 19:00

Sample: 1982 2009

Included observations: 28

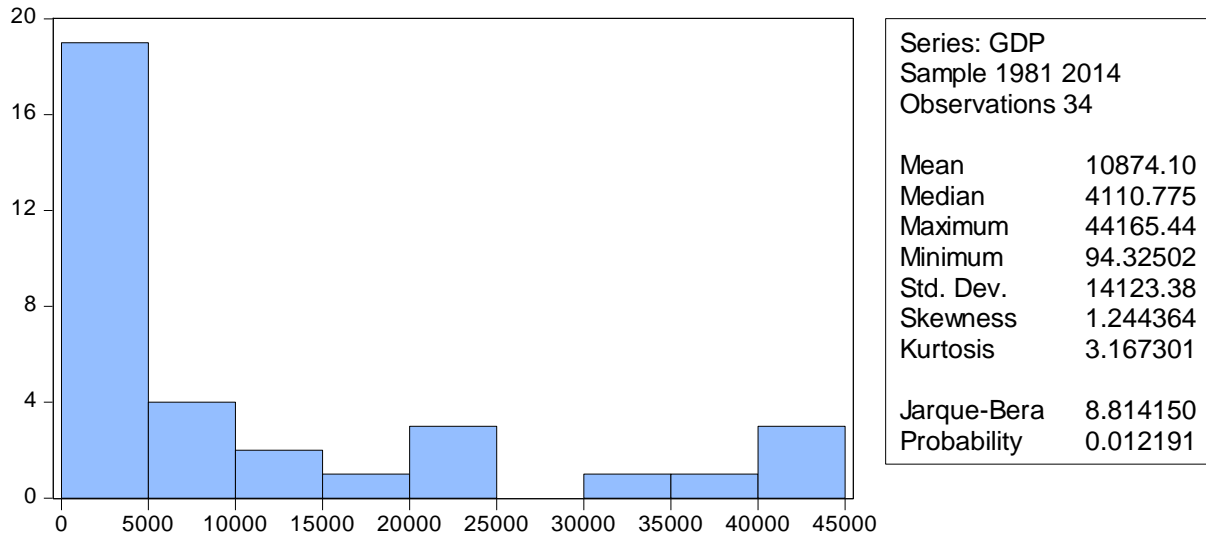
Presample missing value lagged residuals set to zero.

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-38.17106	397.9331	-0.095923	0.9244
MLD	0.198463	2.180530	0.091016	0.9283
BLD	-2.346247	17.52403	-0.133887	0.8947
TMS	0.046537	0.220797	0.210768	0.8350
ECM(-1)	-0.330295	0.266256	-1.240517	0.2279
RESID(-1)	0.523087	0.308048	1.698068	0.1036
R-squared	0.115878	Mean dependent var	-1.38E-13	
Adjusted R-squared	-0.085059	S.D. dependent var	1204.514	
S.E. of regression	1254.697	Akaike info criterion	17.29458	
Sum squared resid	34633795	Schwarz criterion	17.58006	
Log likelihood	-236.1242	Hannan-Quinn criter.	17.38186	
F-statistic	0.576687	Durbin-Watson stat	2.188605	
Prob(F-statistic)	0.717283			

The result of the Lagrange serial correlation test counter the previous result of the Durbin Watson which suggest present of serial correlation. Sequel to the output of the LM test, it shows that there is absence of serial correlation hence, out model is free from spurious result.

Table 5

Normality Test Output (Jarque-Bera)



Judging by the Jarque-Bera output of 8.81415 and a minimal probability level of 0.01219 which is less than the significance level of 5%, therefore we reject the null hypothesis it can thus be explained that the employed sample observations are consistent with the Gaussian (Normal) distributions. i.e. the variables are normally distributed and in an asymptotic series. Though the kurtosis is leptokurtic in nature considering the fact that there are greater than (3) and the variable is positively distributed to the right toward normality. Judging the probability value, the variables are normally distributed to a reasonable extent.

Table 6

Pairwise Granger Causality Tests
Date: 02/11/16 Time: 23:01
Sample: 1981 2014
Lags: 1

Null Hypothesis:	Obs	F-Statistic	Prob.
TMS does not Granger Cause GDP	33	0.45050	0.5072
GDP does not Granger Cause TMS		10.8681	0.0025
MLD does not Granger Cause GDP	33	0.77876	0.3845
GDP does not Granger Cause MLD		6.36647	0.0172
BLD does not Granger Cause GDP	33	7.26863	0.0114
GDP does not Granger Cause BLD		10.5803	0.0028
MLD does not Granger Cause TMS	33	1.70042	0.2022
TMS does not Granger Cause MLD		8.07807	0.0080
BLD does not Granger Cause TMS	33	0.03390	0.8552
TMS does not Granger Cause BLD		11.8049	0.0018
BLD does not Granger Cause MLD	33	6.05656	0.0198
MLD does not Granger Cause BLD		5.36332	0.0276

The result above judging by 5% level of significant reveals that there is a unilateral relationship between TMS, MLD and GDP with causality flowing from GDP to the two variables. This suggests that we reject null hypothesis and hence we accept the alternative hypothesis which implies that GDP

granger cause the volume of money supply in an economy. also, the output of the result shows that the more expanded the economy is, the more government is set out to borrow multilateral fund and if those borrowed funds were utilised for the main purpose there were meant for, the problem of the future generation bearing the cost of debt will be minimal. Furthermore, it was observe that there is a unilateral relationship between bilateral debt and economic growth which implies that each of the variable granger cause each other. This has also justified the result of the OLS which confirm the positive nexus between foreign borrowed fund and the Nigeria economy performance.

5.0 DISCUSSION OF FINDINGS AND CONCLUSION

The research work empirically investigate the intergeneration effect of foreign borrowed fund on performance of Nigeria economy using data from the CBN statistical bulletin spanning from 1981 – 2014 with the help of some estimating tools which includes among others OLS, Phillip parron test, test for long run association, and granger causality test to examine the direction of causality between the variable used in the process of research. Finding reveals from the result of the OLS that TMS, MLD and BLD which are proxy for external debt are positive and significant relationship to economic growth which suggests that when borrowed fund are used on investment like infrastructural, production and manufacturing project and agricultural product, it will stimulate economic performance and hence promote economic growth in the economy such that intergenerational effect of transfer debt will not occur. Mine while, monogbe (2015) state that prolong external debt has a ripple effect on the performance of an economy. the result of the Phillip Parron unit root test also reveals stationality of all the variable at level which limit the chances of having spurious result while the co integration output shows three co integrating equation among the variable used in the process of research and the granger causality test indicate bi lateral relationship between the variable with causality flowing from GDP to external debt indicators.

6.0 RECOMMENDATION

Sequel to this fact, we advise that when government is increasing her spending (external debt), they must be meticulous about the sector of the economy in which such advances is channel towards. Increase in government spending centred on agriculture, manufacturing, entrepreneur and productive sector of the economy will definitely stimulate economic growth and hence crowd in more investment. While increase in government spending on the non-productive sector (current consumption) of the economy will spontaneously crowd out private saving, investment and increase the intergenerational effect in Nigeria.

Secondly, prompt debt payment policy should be embraced by the government has it gives further opportunity for future borrowing plans. Government is also expected to formulate a link in which the public and the private firm can unanimously corporate so as to foster economic growth in Nigeria and hence reduce the burden of foreign debt. Lastly future plans should targeted at taking foreign borrowed fund for investment purposes which is capable of yielding better return which will outperform the initial borrowed fund and hence reduce the crisis of debt servicing. Government is further advice to concentrate more and develop her various recreation centres like art and craft, museum, cinema centres etc. which is capable of attracting foreign investor and hence promoting economic. This will help in reducing over depending on external source of finance economic deficit and reduces government debt.

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Data were sourced from the CBN statistical bulletin

years	MLD	BLD	GDP	TMS
1981	0.18	0.18	94.33	14.47
1982	0.53	0.83	101.01	15.79
1983	0.57	0.70	110.06	17.69
1984	1.27	0.58	116.27	20.11

1985	1.29	0.84	134.59	22.3
1986	4.67	2.46	134.60	23.81
1987	8.78	1.40	193.13	27.57
1988	9.99	7.79	263.29	38.36
1989	21.47	19.78	382.26	45.9
1990	34.61	15.08	328.61	52.86
1991	39.46	14.14	545.67	75.4
1992	89.27	24.23	875.34	111.11
1993	81.46	36.32	1,089.68	165.34
1994	97.06	32.11	1,399.70	230.29
1995	97.04	28.85	2,907.36	289.09
1996	102.63	2.66	4,032.30	345.85
1997	96.20	1.74	4,189.25	413.28
1998	93.21	1.45	3,989.45	488.15
1999	361.19	6.36	4,679.21	628.95
2000	379.04	15.75	6,713.57	878.46
2001	313.50	13.58	6,895.20	1,269.32
2002	375.70	7.06	7,795.76	1,505.96
2003	413.88	7.02	9,913.52	1,952.92
2004	384.25	6.46	11,411.07	2,131.82
2005	330.65	60.54	14,610.88	2,637.91
2006	332.22	54.41	18,564.59	3,797.91
2007	374.30	64.59	20,657.32	5,127.40
2008	464.56	58.70	24,296.33	8,008.20
2009	524.20	66.23	24,794.24	9,411.11
2010	635.45	54.39	33,984.75	#####
2011	723.12	173.73	37,409.86	#####
2012	727.32	299.58	40,544.10	#####
2013	977.05	396.53	42,396.77	#####
2014	1142.29	489.23	44,165.44	#####