IMPACT OF CRUDE OIL ON NIGERIA'S FISCAL POLICY FORMULATION

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ABSTRACT

This research empirically investigated crude oil and fiscal policy in Nigeria with annual secondary time series data over the period 1980:1 to 2015:4 obtained from the Central Bank of Nigeria (CBN) statistical bulletin 2015, edition. The vector auto regression (VAR) model was used as data analysis technique. Firstly it was observed that all the variables were stationary, using the Phillip-Perron unit root test, and having determined the stationarity of the variables we further employed the Lag length selection of which the fifth lag was selected; and VAR stability tests result which affirmed that VAR model is dynamically stable and useful for policy analysis. VAR LM test for serial correlation indicates that the model has no serial correlation problem. While the granger causality test reveal that there exists a bi-directional relationship between natural gas and fiscal policy; oil revenue and a unidirectional causality between crude oil and fiscal policy notably government total expenditure. The impulse response function and Forecast Error Variance Decomposition results shows that oil shocks exert noticeable influence on Nigeria fiscal policy through fiscal channel of government expenditures that are funded by oil revenues. Also the impact of crude oil and natural gas on innovations in fiscal policy shock was positive from the first, second, third forecast periods and was steady throughout and did not die out in the long run. This study therefore recommends that resources should be devoted by the government to developing the non-oil sector such as the manufacturing, agriculture and the service sector. The Nigerian government should continue in the safe guiding oil installations as well as transnational oil companies should collaborate with the government and oil communities in securing oil installations through various empowerment techniques.

Keywords: Fiscal policy shock, Macroeconomic policy, Government expenditure, Crude oil revenue, Natural gas.