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EFFECT OF CRUDE OIL PRICE ON ECONOMIC GROWTH IN NIGERIA (1985-2019)

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Abstract

This study examined the effect of crude oil prices on economic growth in Nigeria between 1985 and 2019 based on the Renaissance growth model. The theory was hinged on the exporting and importing countries' experience on the impact of changes in oil prices in diverse ways, depending on the internal mechanism for stabilization. The Auto-Regressive Distributed Lag showed that a positive and statistically insignificant relationship exists between crude oil price and economic growth in Nigeria. The study, therefore, pointed out the need for the government to allocate more funds to capital expenditure in projects. This will create more jobs and reduce the unemployment rate. It also recommended diversification of the Nigerian economy which is imperative given the economic recession in the country.

Keywords: Effect, Crude Oil, Price, Economic Growth, Nigeria.

Introduction

Crude oil is a vital commodity for both oil-importing and exporting nations, as it is a major source of income and input factor for many countries. A rise or fall in price is of interest to these economies as it can affect various macroeconomic variables (Boheman, et al 2015). The oil price has been highly volatile since the end of World War II and has become even more serious in recent times. This has implications for the economies of oil-exporting countries especially oil-dependent nations like Nigeria (Okoro, 2014). Nigeria's economy is largely dependent on crude oil export, as most of its revenue is generated from petroleum export (Chikwe, et al 2016). The wave of oil price volatility has taken a toll on the economic standing of the nation. The plunge in the price of oil and its volatile behaviour currently has resulted in the depletion of our foreign reserves, and the devaluation of the naira amongst others (Kaletsky 2015). Hence, a need to critically investigate the extent to which oil price volatilities affect the Nigerian economy.

The oil sector is a key sector in the Nigerian economy. This is because; the revenue from oil is the major growth factor in the Nigerian economy. Resources generated from it, fund virtually

all capital expenditures in the Nigerian system. The oil sector is closely linked with the financial sector because the financial sector in every country is the oil that fuels the economy of such a country and the bedrock for the sustenance and continuity of the sovereignty of a country (Obasi, et al 2000).

Since the discovery of crude oil in commercial quantities in the country, Nigeria has for so long depended majorly on oil revenue to fund its developmental programmes. The totality of revenue earnings from this source is dependent principally on two factors, namely the quantum of production and the international oil price of the commodity. Being a member of the Organization of Petroleum Exporting Countries (OPEC), both factors are determined by forces outside the direct control of Nigeria. Due to forces of demand and supply, oil prices and production quotas are unstable (Nwankwo, 2015). Over the years, Nigeria has had to deal with the vagaries of the unpredictability of international oil prices and production quotas as frameworks for managing her public finances. The crash in international oil revenue, which commenced around 2014, is not the first experienced by the country as similar crashes in oil revenues had occurred between 1986 and 2008. Arising from the Arab-Israeli war in 1973, the world witnessed a period of a sustained upward swing in crude oil prices until 1980 when there was a glut in the international oil market. The result was that international oil prices started to decline gradually from US$40 in 1980 to below US$10 in 1986. A similar scenario occurred two decades later due to the global economic meltdown, which started with the subprime mortgage crisis in the United States in 2008. The meltdown resulted in a credit crunch, declining asset values, and a fall in economic activities and output, a reduction in demand for oil, and consequently, oil prices fell from US$147 in July 2008 to below US$45 by December 2008 (Nwankwo, 2015). With the then increasing demand for fossil oil by the global community, the international price of crude oil rose continuously until it reached $140 per barrel in 2008, fluctuated, and as late as June 2014, remained above $100 (Campbell, 2014). Apart from unsteady price movements, the other factor that has impacted negatively on the current total revenue derived from oil is the quantum of production, which is also falling. From its assigned production quota, it is estimated that Nigeria could produce 2.5 million barrels of crude oil per day. However, due to several extenuating conditions, like organized theft, sabotage, ethnic agitations, militancy, etc, actual production now seems closer to 1.9 million barrels per day. In addition, the major international oil companies have been cutting back their operations in Nigeria for a variety of economic, political, and security concerns (CBN, 2015).

The impact of the oil price fall is disastrous for the Nigerian economic system; consumers are feeling the hit through the escalating price of goods and commodities, and the massive sack of workers in the labour force among others (Obasi, et al 2000).

Statement of The Problem

According to OPEC, Nigeria has almost 40 billion barrels of proven oil reserves. After nearly 50 years of exploration, the oil and gas sector continue to play a significant role in the economy and accounts for 65% of total revenue to the government. With a maximum crude oil production capacity of 2.5 million barrels per day, Nigeria is Africa's largest producer of oil, and the 13th largest oil-producing country in the world (NEITI, 2020).

The major problem confronting Nigeria today is the price of oil and its attendant consequences on the economic well-being of its citizen. This is because Nigeria does not have control over oil products, because of her inability to independently refine its crude oil into petroleum products. Nigeria's inability to attain sustainable development, a certain level of full employment, poverty reduction, solve the unfavourable balance of trade, inflation, and high debt ratio, are all linked to its over-dependence on oil as its major source of revenue. Hence, it appears that oil price volatility poses a significant problem to macroeconomic stability and sustainable development in Nigeria.

Research Questions

i. What is the effect of crude oil prices on economic growth in Nigeria?
ii. What is the effect of the price of crude oil on government revenue and expenditure?

Objectives of The Study

The broad objective of this research is to determine the magnitude of the impact of crude oil prices on economic growth in Nigeria from 1985 to 2019. The other specific objectives are to:
i. Investigate the effect of crude oil on economic growth in Nigeria.
ii. Examine the price of crude oil on government revenue and expenditure.

Literature Review

Conceptual Review

Discovery of Oil

Oil was discovered in Nigeria in 1956 at Oloibiri in the Niger Delta after half a century of exploration. The discovery was made by Shell-BP, at the time the sole concessionaire. Nigeria joined the ranks of oil producers in 1958 when its first oil field came on stream producing 5,100 BPD. After 1960, exploration rights in onshore and offshore areas adjoining the Niger Delta were extended to other foreign companies. In 1965 the EA field was discovered by Shell in shallow water southeast of Warri. In 1970, the end of the Biafran war coincided with the rise in the world oil price, and Nigeria was able to reap instant riches from its oil production. Nigeria joined the Organization of Petroleum Exporting Countries (OPEC) in 1971 and established the Nigerian National Petroleum Company (NNPC) in 1977, a state-owned and controlled company that is a major player in both the upstream and downstream sectors. (NNPC, 2021)

Following the discovery of crude oil by Shell D'Arcy Petroleum, pioneer production began in 1958 from the company's oil field in Oloibiri in the Eastern Niger Delta. By the late sixties and early seventies, Nigeria had attained a production level of over 2 million barrels of crude oil a day. Although production figures dropped in the eighties due to an economic slump, 2004 saw a total rejuvenation of oil production to a record level of 2.5 million barrels per day. Current development strategies are aimed at increasing production to 4 million barrels per day by the year 2010.

Since the discovery of crude oil in commercial quantities in the country, Nigeria has for so long depended majorly on oil revenue to fund its developmental programs. The impact of oil price volatility on Nigeria's economy is quite complicated to analyze because oil has been the life wire of all economic activities in Nigeria. The total dependence of Nigeria on oil production for income generation has serious implications for the economy. Since agriculture

was abandoned for oil, oil became the major source of Nigeria's revenue, and it was expected to bring about substantial economic growth and development. However, there have been a series of fluctuations in the oil price over the last four decades, thereby hampering the macroeconomic objectives of Nigeria, (CBN, 2008). There is no doubt that the total dependence on oil, its attendant corruption, and constant volatility in the oil price are the major causes of poverty and under-development in oil-producing African countries.

The unprecedented plunge in prices left everybody, especially OPEC member countries confounded and thoroughly confused. In Nigeria, whose economy is overly dependent on the commodity the situation is dire as, despite nominally high growth in the non-petroleum sectors, the country remains a Petro-State. More than 90% of the profits from the petroleum industry go to the Nigerian government, while the product has continued to account for more than 80% of all government revenue and more than 90% of the country's exports (CBN, 2015). This over-dependency and the current situation in the industry are now stirring serious fiscal concerns throughout the country as most State and Local government areas' revenues are intrinsically tied to the Federal allocation.

Structure of The Oil Industry

The oil and gas sector in Nigeria is structured into upstream, midstream, and downstream sectors.

The upstream sector is the most important as all other sectors rely on it, this sector is involved in oil exploration and development of gas exploration and development. Companies involved include Chevron, Total, and Shell.

The midstream sector is the second and is a highly capital-intensive sector that is involved in oil transportation and gas transmission, gas processing, derivative processing/production, and oil refining. The key players in this sector include the NNPC and International Oil Companies (IOC). The IOCs are responsible for 94% of the total production of oil in the industry.

The downstream sector is involved in gas distribution/sale, petroleum product distribution and storage, and petroleum product retail. In this sector, local refineries process a limited amount of domestic crude oil into various petroleum products for local consumption with distribution and marketing taking place within this sector. Such refineries include Port Harcourt Refining Company 1, Port Harcourt Refining Company 2, Warri Refining and Petrochemical Company, and Kaduna Refining and Petrochemical Company.

Oil Fields, Gas Sources, and Reserves

There are 500 fields in the Niger Delta. Over 55 per cent of these are onshore, while the remaining area is in shallow waters (less than 500 meters). Of these fields, 193 are currently producing while 23 have either been closed. (NAPIMS, 2021).

Six oil companies- Shell, Chevron, Mobil, Agip, Elf, and Texaco- currently dominate the oil industry in the country. Together, they hold some 98% of the oil reserves and operating assets. Today, recoverable reserves are estimated at 28.5 billion barrels, with average productivity of about 2.5 million barrels per day, including condensates. The average oil depletion rate is 15%

but the reserves base has continued to increase additions from exploration and appraisal drilling and deep offshore exploration. Nigeria's associated and non-associated gas reserves are estimated to be well over 166 trillion standard cubic feet (TCF). This places Nigeria among the top ten countries with the largest gas reserves in the world. (NAPIMS, 2021).

Problems Facing the Oil Industry

1. **The vandalization of oil pipelines**: There are many reported cases of illegal tapping of crude oil and oil products from pipelines. This has brought about adulterated petroleum products in the economy.
2. **Frequent breakdown of refineries**: Poor maintenance culture, sabotage, etc. have led to frequent breakdown of refineries. This results in an acute scarcity of petroleum products and the need for importation.
3. **Political unrest and hostile attitude of the oil communities**: Production has sometimes been halted in oil mineral-producing areas due to the hostile attitude of the natives and attacks by militants on oil installations and wells.
4. **Inadequate funding by the government:** There are reports of underfunding of the refineries and other oil-producing units by the government. This has led to the breakdowns of refineries.
5. **Mismanagement and corruption**: There are reported cases of mismanagement of funds by corrupt officials who prefer their gains to the interest of the public.
6. **Inadequate indigenous skilled manpower**: This has led to the importation of foreign skilled manpower with its attendant problems such as delays in the completion of repairs, repatriation of scarce foreign exchange, etc.
7. **Persistent scarcity of petroleum product**s: The scarcity of petroleum products is a frequent phenomenon in Nigeria. Many times, petroleum dealers create artificial scarcity to sell at very high prices. Sometimes, petroleum scarcity results from the fact that most of the refineries in the country either do not operate at all or operate far below the installed capacity.
8. **Smuggling of petroleum products**: There is a tendency for some people to smuggle petroleum products to other West African countries for sale at higher prices. This has worsened the problem of scarcity of petroleum products in the country.

Theoretical Review

The proponents of the Renaissance growth model opine that both oil price changes and their volatility have negative effects on economic growth, though in different ways (Lee, 1998 in Oriakhi and Iyoha, 2013).

Proponents of the theory concurred with the fact that a relationship exists between crude oil prices and economic growth in both developed and developing economies. Although, the effects have been proven with empirical evidence to be different even among these nations. In the same way, both the exporting and importing countries experience the impact of changes in oil prices in diverse ways, depending on the internal mechanism for stabilization.

This research is therefore anchored on the Renaissance growth model of economic growth. The choice of this theory is informed by the close relationship it bears with the subject matter. It specifies a link between changes in crude oil prices and their impact on economic growth which this study investigated.

Empirical Review

Augustine (2015); examined the nexus and the magnitude of the effects of fluctuation in the exchange rate on oil price and on how it impacts Nigeria's economic performance. The study evaluated the effects of exchange rate fluctuations on the crude oil price as well as on economic performance, simultaneously. The variables employed are the Gross domestic product of Nigeria, Oil price, Real exchange rate, Trade openness, Inflation, Terms of trade, World gross domestic product, and World crude oil production. The ordinary least square and the two-stage least squares estimation techniques were employed. The study found that the real exchange rate has a positive effect (1.2%) on Nigeria's economic performance. It was discovered that a 1% increase in the price of oil would positively influence the economic performance of Nigeria by a magnitude of 4%. The R2 shows that 82% deviation in the gross domestic product was captured by the explanatory variables whereas the statistic of the model is insignificant, thus, confirming the relevance and validity of the instruments used.

Babajide and Soile (2015) worked on Oil Price Shocks and Nigeria's Economic Activity: Evidence from Autoregressive Distributed Lag (ARDL) Co-integration and Vector Error Correction Model (VECM) Analysis. The study examined the impact of oil price shocks and their transmission channels to selected macroeconomic variables which served as proxies for economic activities in Nigeria using quarterly data from 1980 in Quarter 1 to 2011 in Quarter 4. The empirical analysis was carried out using the VAR framework. Further, the Impulse Response Function (IRF) and the Variance Decomposition (VDC) were carried out to trace the impact of oil shocks on the Nigerian economy. The result showed that oil price shocks harm nearly all the variables used in the analysis; furthermore, the asymmetric relationship between oil price shocks and GDP was not established as the effects were found to be minimal in all the test results. The result clearly illustrated that oil price decreases affected most of the macroeconomic indicators than increases. Specifically, oil price decreases affected trade balance, inflation, government revenue, and exchange rate. The implications are that oil price decreases affected macroeconomic activity in Nigeria than increases as most of the variables except inflation did not respond to increases. Based on the findings it was recommended that relaxation of monetary policy during an oil price fluctuation era as the government has already through the central bank adopted an inflation targeting policy to protect the economy from possible outcomes of full-blown stagflation (persistent high inflation) amongst others.

Methodology

Model Specification

To examine the effects of oil prices on Nigeria's economic growth, we specify the functional function as:

GDP = β0+β1GNE+β2LogCOP+β3RIR+β4INF + β5REER+β6FPP+Ut…… 4

COP= Crude Oil Price (Independent or Exogenous variable)

$REER$= Real Effective Exchange Rate (Independent or Exogenous variable).

INF= Inflation rate (Independent or Exogenous variable)

GDP= GDP Growth Rate

RIR = Real Interest Rate

GNE = Gross National Expenditure

SOURCE OF DATA

Quarterly data covering the period from 1985-2019. The data was sourced from the World Development Indicators (WDI) and Central Bank of Nigeria Statistical Bulletin.

ECONOMETRICS SOFTWARE

The E-views 9.0 software was used in analyzing the data.

1.0 DATA ANALYSIS AND RESULT INTERPRETATION

1.1 UNIT ROOT TEST

The table below presents the result of the Time series properties of the variables included in the model. The variables for the analysis are subjected to one basic test of the unit root as a measure to determine whether the unit root is stationary or not.

TABLE1.1: Unit root test Result

VARIABLES	ADF T-STATISTIC (AT LEVEL)	ADF CRITICAL VALUE (AT 5%)	ADF T-STATISTIC (AT LEVEL)	ADF CRITICAL VALUE (AT 5%)	ORDER OF INTEGRATION	RULE
$Log\ GDP$	-1.217000	-2.951125	-0.334141	-2.954021	I(1)	Stationary at First difference
$Log\ GNE$	-2.187288	-2.951125	-3.686436	-2.954021	I(0)	Stationary at Level
$REER$	-6.521483	-2.951125	-5.185706	-2.954021	I(0)	Stationary at level
INF	-2.209789	-2.976263	-3.364835	-2.986225	I(0)	Stationary at level
RIR	-3.540679	-2.951125	-7.300541	-2.954021	I(0)	Stationary at level
COP	-1.295477	-2.951125	-5.326805	-2.954021	I(1)	Stationary at First difference

The results in table 1.1 above show that the variables are jointly co-integrated. i.e combination of I(0) and I(1).

EMPIRICAL RESULT AND FINDING

This research determined the impact of all independent variables on the dependent variable. Auto-Regressive Distributed Lag is run based on the unit-roots properties of the variables of interest.

Table 1.2:*Auto-Regressive Distributed Lag Method*

Dependent Variable: LOG_GDP
Method: ARDL
Date: 05/27/21 Time: 10:12
Sample (adjusted): 2 35
Included observations: 34 after adjustments
Maximum dependent lags: 1 (Automatic selection)
Model selection method: Akaike info criterion (AIC)
Dynamic regressors (1 lag, automatic): RIR REER LOG_GNE INF COP
Fixed regressors: C
Number of models evaluated: 32
Selected Model: ARDL(1, 1, 1, 0, 0, 0)

Variable	Coefficient	Std. Error	t-Statistic	Prob.*
LOG_GDP(-1)	0.843165	0.045495	18.53305	0.0000
RIR	-0.000754	0.004233	-0.178046	0.8601
RIR(-1)	0.006901	0.003315	2.081431	0.0478
REER	-0.001047	0.000753	-1.391445	0.1763
REER(-1)	0.000988	0.000608	1.625095	0.1167
LOG_GNE	0.191188	0.055327	3.455611	0.0020
INF	0.004373	0.003062	1.428167	0.1656
COP	0.002184	0.001406	1.552813	0.1330
C	1.334147	1.052394	1.267725	0.2166

R-squared	0.980344	Mean dependent var	25.41278
Adjusted R-squared	0.974054	S.D. dependent var	0.915619
S.E. of regression	0.147485	Akaike info criterion	-0.768255
Sum squared resid	0.543795	Schwarz criterion	-0.364218
Log-likelihood	22.06034	Hannan-Quinn criteria.	-0.630467
F-statistic	155.8607	Durbin-Watson stat	2.782247
Prob(F-statistic)	0.000000		

Source: Author's computation using E-views 9

Interpretation of Regression Results

The expected value of $\beta 0$ is 1.334147 with a probability of 0.2166%. This means that if the independent variables are zero the dependent variable will be $Log\ GDP(-1)$ estimate its value as 0.843165 with its probability as 0.0000%, $Log\ mns(-1)$means that dependent variable $log\ GNE$ is the function of the past lag value.

The estimated value for $\beta 1$ is -0.000754 with a probability value of 0.8601%. This means that a 0.8601% increase in (RIR)will, on average, lead to a -0.000754 decrease in the Log of Gross Domestic Product $(LOG\ GDP)$ when other variables are held constant. It implies that there is a negative and significant relationship between RIR and (GDP) Gross domestic product which is in agreement with the a priori expectation. RIR and $log\ GDP$ are a function of the past lag value as well as the present lag value of the dependent variable $log\ GDP$. On the other hand

log, $RIR\ (-1)$ gives its estimated value as 0.006901 with the probability value of 0.0478%. It implies that there is a positive and significant relationship between $RIR\ (-1)$ and log-(GDP) and the independent variable RIR is a function of the past lag value as well as the present lag value of the dependent variable log GDP.

The estimated value for β2 is -0.001047 with a probability value of 0.1763%. This means that a 0.1763% decrease in the Real Effective Exchange Rate ($REER$) will, on average, lead to a -0.001047 decrease in the Gross domestic product (GDP) when other variables are held constant. There is a negative and insignificant relationship between Real Effective Exchange Rate ($REER$) and the Gross domestic product (GDP) which agrees with the a priori expectation. On the other hand log, $REER\ (-1)$ gives its estimated value as 0.000988 with the probability value of 0.1167%. It implies that there is a positive and significant relationship between $REER\ (-1)$ and log-(GDP) and the independent variable REER is a function of the past lag value as well as the present lag value of the dependent variable log GNE.

The estimated value for β3 is 0.191188 with a probability value of 0.0020%. This means that a 0.0020% increase in the Gross National Expenditure (GNE) will, on average, lead to a 0.191188 increase in the Gross domestic product (GDP) when other variables are held constant. There is a positive and significant relationship between Gross National Expenditure (GNE) and Gross domestic product (GDP) which agrees with the a priori expectation.

The estimated value for $\beta 4$ is 0.004373 with a probability value of 0.1656%. This means that a 0.1656% increase in the inflation rate (INF) will, on average, lead to a 0.004373 increase in the Gross domestic product (GDP) when other variables are held constant. There is a positive and significant relationship between inflation rate (INF) and Gross domestic product (GDP) which agrees with the a priori expectation.

The expected value of β5 is 0.002184 with the probability value of 0.1330%. This implies that a 0.1330% increase in (COP), on average, will lead to a 0.002184 increase in GDP when the other two independent variables are held constant. It implies that there is a positive and significant relationship between Crude oil price and Gross domestic product(GDP) which also in agreement with the a priori expectation.

Co-Efficient of Determination ($R2$) and Adjusted ($R2$)

The coefficient of determination (R^2) is 0.980344, which implies that the independent variables can clarify 98% of the total variable while 2% is due to the error term. The adjusted co-efficient of determination (R^2) is 0.974054, which implies that the explanatory variables can explain 97% of the total variance in the dependent variable while 3% is captured by the error term after taking cognizance of the degree of freedom.

The value of the F-statistic is 155.8607 with a probability value of 0.000000%. The P-value of the F-statistic is less than 0.05%. This means that all the independent variables jointly have a positive and significant influence on the dependent variable. We reject the null hypothesis (H_0) and accept the alternative hypothesis(H_1).

The value of Durbin-Waston statistics is 2.782247, at thirty-five year estimated parameters. It implies that there is a presence of autocorrelation.

COINTEGRATION TEST (BOUNDS TEST)

ARDL Bounds Test
Date: 03/20/22 Time: 10:14
Sample: 2 35
Included observations: 34
Null Hypothesis: No long-run relationships exist

Test Statistic	Value	K
F-statistic	5.028790	5

Critical Value Bounds

Significance	I0 Bound	I1 Bound
10%	2.26	3.35
5%	2.62	3.79
2.5%	2.96	4.18
1%	3.41	4.68

The calculated F-statistic is 5.028790, which is greater than $I(0)$and $I(1)$bound at the 5% level. Therefore, we say that there is cointegration between the variables, meaning there is a long-run relationship between the variables.

LONG-RUN

ARDL Cointegrating And Long Run Form
Dependent Variable: LOG_GDP
Selected Model: ARDL(1, 1, 1, 0, 0, 0)
Date: 03/20/22 Time: 10:15
Sample: 1 39
Included observations: 34

Cointegrating Form

Variable	Coefficient	Std. Error	t-Statistic	Prob.
D(RIR)	-0.000754	0.004233	-0.178046	0.8601
D(REER)	-0.001047	0.000753	-1.391445	0.1763
D(LOG_GNE)	0.191188	0.055327	3.455611	0.0020
D(INF)	0.004373	0.003062	1.428167	0.1656
D(COP)	0.002184	0.001406	1.552813	0.1330
CointEq(-1)	-0.156835	0.045495	-3.447296	0.0020

Cointeq = LOG_GDP - (0.0392*RIR -0.0004*REER + 1.2190*LOG_GNE +
0.0279*INF + 0.0139*COP + 8.5067)

Long Run Coefficients

Variable	Coefficient	Std. Error	t-Statistic	Prob.
RIR	0.039195	0.033260	1.178449	0.2497
REER	-0.000376	0.003241	-0.116016	0.9086
LOG_GNE	1.219034	0.397325	3.068107	0.0051
INF	0.027883	0.018268	1.526319	0.1395
COP	0.013924	0.008077	1.723951	0.0971
C	8.506671	5.010097	1.697905	0.1019

Conclusion

The study analysed the effect of crude oil prices on economic growth in Nigeria period 1985-2019. The role of crude oil prices in supporting the economy which affected some macroeconomic variables such as the output of the petroleum sector cannot be over-emphasized. This study applied the Auto-regressive distributive lag method to determine the effect of crude oil prices on economic growth in Nigeria within the period of 1985-2019. Evaluation of the oil price on various measures showed that there is a positive relationship between crude oil price on economic growth using the method of the Renaissance growth model. This showed that the real effective exchange rate, Inflation rate, Real Interest Rate, and Gross national expenditure are stationary at level difference while crude oil price and the Gross domestic product were stationary at first difference.

The measures showed that the effect of crude oil price on economic growth in Nigeria is partially strong, and the following measures showed a positive relationship to gross domestic product $log\ GDP(-1), log\ RIR(-1), REER(-1), GNE, INF, and\ COP\ while\ RIR, REER\ has\ a$ ne gative effect. The results also reveal that crude oil price possessed a positive impact on economic growth in the short run. The bounds test results showed that there is a long-term relationship among the variables.

Recommendations

The oil sector is one of the sectors that can guarantee numerous benefits for sustainable growth and on some other sectors in the long run. The sector must be repositioned and developed to meet international standards by creating comprehensive agenda at national levels. Based on the findings of the research, the following are recommended by the study.

This study recommends that diversification of the Nigerian economy is most imperative given the economic recession in the country now.

1. To ensure that the country closes the gap between shrinking revenue and expenditure, policymakers must diversify the economy and cut waste in governance.
2. The country should diversify its export revenue base as a means of minimizing reliance on crude oil and petroleum product. This will further shield the economy from the impact of crude oil price on the economy, and thus prevent the Naira from undue pressure.

3. Government should allocate more funds to capital expenditure. It is a usual trend in Nigeria that recurrent expenditure takes a chunk of the budget which goes into salaries and allowances. Capital projects will create more jobs and reduce the unemployment rate.

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