OIL PRICE FLUCTUATIONS AND ITS IMPACT ON CURRENT ACCOUNT IN NIGERIA

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ABSTRACT: This study investigates the relationship between oil price fluctuations and Nigeria's current account balances from 1987 to 2021. Current account is a pivotal macroeconomic variable that is used to measure the economic performance of a country. This current account is itself a record of all of a country's national and international transactions and oil price is one of the major factors that determines the value and volume of transactional movements in a country. This is largely the case with Nigeria, which is a country that is heavily reliant on oil. This study adopted a time series analysis by investigating time series data and the Autoregressive Distributed Lag (ARDL) was used to estimate the correlation between oil price variations and current account in the short and long runs. The findings showed that oil price had a positive but insignificant effect on current account in the short run while it had a negative but significant impact on the current account in the long run. In terms of the other determinants of current account which were examined in this study, it was discovered that population growth rate and trade had an insignificant correlation with current account balances in the short run while GDP and oil prices had significant impacts on current account balances in the long run. These findings inform the conclusion of this study that current account is a viable metric for measuring Nigeria's economic performance as well as policy making. To gain greater economic stability, this study recommended that there is a need to strategically position Nigeria's economy towards other forms of revenue rather than oil so as to reduce the impact of oil price fluctuations on the country's current account balances and the economy at large.

KEYWORDS: Current Account, Oil Price, Gross Domestic Products, Trade.

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INTRODUCTION

Current account has remained a key indicator of the performance of a country in terms of being the metric to measure the value of a county's currency as well as that country's balance of trade. This explains why every global economy strives towards maintaining a healthy current account. Current account is the time-specified record of a country's total imports, exports, foreign aid, foreign investments, and payments for international services as well as all of a country's transactions with other countries (Ghosh & Ramakrishnan, 2010). Being time-specific entails that current account is measured either quarterly or annually and the several movements means that it is a major record of national and international transactions. This explains why the incoming and outgoing movements in a current account are strongly connected to and portray information about the actions and expectations of all key participants in the market of an economy which freely interact with other economies of the world (Knight & Scacciavillani, 1998). In view of this, a current account becomes a vital macroeconomic variable that can be leveraged upon to bring about positive economic changes.

Current account could either reflect deficit or surplus and this is what makes it an effective tool for economic planning and policy making. A current account deficit refers to a state where the total value for the imports of goods and services and payments for international services surpasses the total value of a county's exports of goods and the foreign investment (Honsou, 2017). In contrast, current account surplus is a situation where a country's total exports and foreign investments into the country exceeds that country's total imports and other international remittances. Aside from being a tool for policy making, current account balances depict the need for the financing of an economy or not as well as a country's competitiveness in the international market. Despite these impacts of current account, one of the major aspects of current account that has attracted and continues to attract interest among scholars in the disciplines of economics and public finance is current account deficit. This is because current account deficit, among other things, reflects a negatively performing economy which requires strategic economic intervention to enhance its performance.

One of the major determinants of current account balance is the dependency on oil. This is because the continuously escalating prices of oil has contributed immensely to changes in the current account balances of countries. While oil exporting countries largely benefit from changes in oil prices, the current account of oil importing countries tends to tilt towards deficits (Altayligil & Cetrez, 2019). To put this into perspectives, oil price was $16 per barrel in 1994 and rose to $116 per barrel in 2012 (Altayligil & Cetrez, 2019). It must also be noted that oil prices are also characterized by intense volatility and this means that the shocks, especially intense rises in oil prices, further deepen the deficit on importing countries reliant on oil.

Nigeria is an example of a major global economy that is hugely reliant on oil. This is because the country is dependent on revenue from oil to fund capital public projects and major overheard costs. This reliance on oil is evident in how the oil sector has been the largest contributor to Nigeria's GDP. In view of Nigeria's reliance on oil, there is a positive nexus between oil price volatility and the unstable economic growth in Nigeria. For example, when global oil prices plummeted to less than $40 per barrel, the revenue of Nigeria's government was negatively affected (Agbaeze et al., 2015). This implies that the total revenue and expenditure of Nigeria's government moves in similar direction with trends in oil price changes.
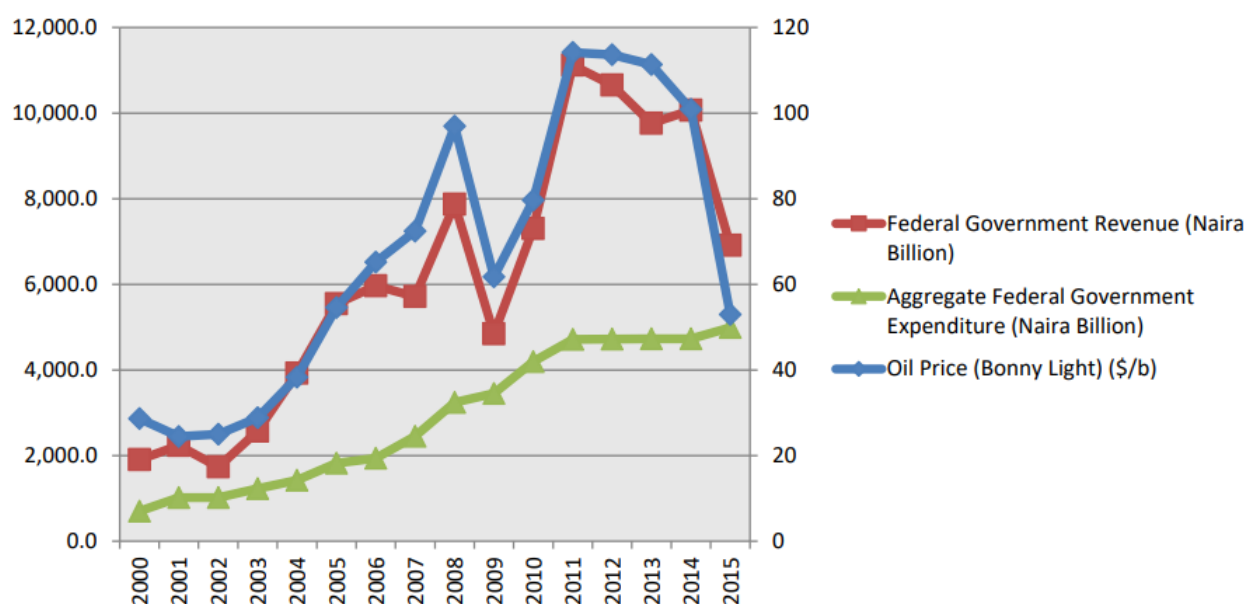
Fig. 1 showing trend analysis of Nigeria between 2000 and 2015

(Source: Emediegwu & Okeke, 2017)

The figure above indicates a symmetric relationship between the movements of oil prices and the revenue and expenditure, which are key components of current account.

In view of the above, this study investigates the relationship between oil price fluctuation and the current account balance of Nigeria. Indeed, while a few studies have focused on the impact of oil price volatility on the economic growth of Nigeria through examining the impact of oil price on inflation rates and exchange rates (Nuhu, 2017), others have examined the impacts of Nigeria's current account balances on policy making in the country (Henriques & Sardosky, 2011). In view of the aforementioned, this study, to the best of the author's knowledge, is among the first or few to examine how oil price volatility affects the current account balances of Nigeria. The choice of Nigeria as the study site for this study stems from the fact that Nigeria is an oil dependent country, meaning that oil price movements affect the trade and investments in the country.

In terms of structure, this study is divided into five. The above is section one which focuses on the introduction. Section two focuses on a critical review of literature on the core concepts of this study while section three states the sources of data and the methodology for the collection and analysis of data after identifying key variables involved in this study. Section four is an analysis of the collected data while the final section is a presentation of the conclusion and recommendations of the study.

LITERATURE REVIEW

The IS-LM Model

One of the major models that have been extended to describe the relationship between key movements in an economy is the IS-LM model. This model was developed by John Hicks in 1937 and further expanded by Alvin Hansen in 1953. This explains why the model is also referred to the Hick-Hansen Model and it is a two way macroeconomic instrument that highlights the correlation between general interest rates and the output of goods and services in a country (Hansen, 1953). This model was however further expanded by Flemming and Mundell (1964) who argued that there is a positive correlation between the monetary policies and the macro-economic variables of such a country. The argument of Flemming and Mundell captures the relationship between the money market, the goods and services market, and foreign exchange balances of a country. On this note, it implies that the interest rate associated with money market and the total output of the goods market are pivotal in the process of regulating a country's economy. In another related line of argument, Caldara and Kamps (2008) explain that a country that is experiencing deficit as a result of fiscal shock requires a huge inflow of funds either from the government or from foreign sources, and this is a situation that captures the idea of current account deficit.

The above implies that a country's current account balance is affected by changes in monetary and fiscal policies, and this is aptly the case in Nigeria where there are continuous fiscal and monetary changes to cushion the effects of oil price changes given Nigeria's reliance on oil. This is owing to the fact that the expenditure of Nigeria's government is impacted by changes in oil prices which negatively affect and limit current account surplus in Nigeria.

Empirical Review

Having established the fact that oil price fluctuation contributes to fiscal and monetary shocks which, in the long run, affect the current account balances of a country, it is expedient to explore empirical studies that have focused on the nexus between oil price fluctuations and several micro- and macro-economic aspects of an economy, one of which is current account balances. There are several of such studies and this section critically reviews some.

In view of the fact that oil exporting countries usually experience a boom in revenue as a result of increases in oil price, Allegret et al. (2013) investigated the relationship between oil price changes and current account in twenty-seven (27) oil exporting countries of the world. This oil price-current account connection is examined in terms of how it is mediated by financial developments in these oil-producing economies. The study relied on panel smooth transition regression models between 1980 and 2010 and provided key evidences that allow for the refinement of the conventional understanding of the impacts of oil prices on current account balances of economies. As argued by the study, the impact of oil price fluctuations on current account is non-linear and this non-linear effect depends largely on the level of financial development in the oil exporting countries. In view of this, the study specifically argues that oil price changes only have a positive impact on the current account of financially developed oil exporting economies. On the other hand, financially less developed countries will witness a less significant impact of oil price variations on current account balances. The aforementioned entails that rising oil prices are not the sole drivers of current account surplus; rather, it is the ability for a country to effectively manage its revenue and shield its economy

from oil price volatility that results in current account surplus. On this note, the study recommended that there is a need to have a functional financial system so as to maximize increases in oil prices.

In a related but more specific study, Gnimassoun et al. (2017) examined the correlation between oil prices and current account in Canada, which is an oil exporting country as well as a diversified economy. The study centered on this relationship at different points in time. To achieve this, the study adopted an innovative approach by using time-varying parameter vector autoregressive (TVP-VAR) model which was linked with a sign restriction. The analysis using this innovative approach revealed that drastic reduction in oil supply does not have a noticeable impact on current account balances. On the other hand, severe reduction in oil demand has a noticeable and significant effect on the current account balance of Canada and this tends to rise over a sustained period of time. Furthermore, the study showed that using revenue from oil to fund imports has a negative impact on current account balance as a result of the derived effects of the oil demand shock. Finally the study highlighted that a country's current account balance remains in the positive when such a country is able to deepen its domestic financial market as well as accumulate large volumes of foreign exchange reserve. In view of these findings, the study recommended that there is a need for effective management of surplus revenue from oil to avoid "resource curse" which has plagued a number of developing countries that have gotten surplus oil revenues in time past.

In another study, Baas and Belke (2018) argued that imbalances in current account of economies have remained an issue of topical policy discourse as a result of the fact that current account imbalances contribute to the economic instability of countries. In view of this, their study focused on the impact of current account discrepancies on a currency union as a result of the fact that the rising national debts of European Union countries is a reflection of current account imbalances which increase the risks faced by a currency union. According to the study, current account imbalances among currency union is a function of the differences in institutions guiding the performance of currency in each country. As such, there is the lack of a viable exchange rate mechanism. In view of this, the study recommended that the current imbalances can be reduced when a binding monetary policy is put in place.

Qurat-ul-ain and Tufail (2013) investigated the impacts changing relationship between exchange rate and current account in terms of how this relationship is mediated by changes in oil prices fluctuations in D8 countries (Malaysia, Egypt, Nigeria, Iran, Indonesia, Bangladesh, Pakistan, and Turkey). To achieve this, the study adopted a time series analysis form 1981–2010 and the recursive Vector Autoregression technique was engaged for the analysis of the data. The analysis revealed that the J Curve existed in all the D8 countries, particularly the oil importing countries, and this means that the trade deficit of the countries initially worsened after the depreciation of their currency. However, the J Curve also existed in Nigeria, Egypt and Iran which are oil exporting countries. Unlike in other countries, however, the current account deficit did not improve even after the depreciation of the currency. In the case of Indonesia, the current account balance significantly improved following the period of the country's currency depreciation. In view of these varying impacts, the study recommended that all oil exporting countries need to engage in strategic diversification to avoid the resource curse challenge.

The above empirical review indicates that oil price fluctuation has varying impacts on the current account balances of countries. However, there appears to be a lack of consensus among

the studies on what really constitutes the correlation between oil price fluctuation and current account. It is also evident that the impact of oil price fluctuation on the current account of oil importing countries is different from those of oil exporting countries. Considering the fact that Nigeria both exports and imports, there is a need to specifically examine the correlation between oil price changes and the current account balance of Nigeria. Drawing upon this therefore, this study tests the hypotheses below:

H0: There is no significant relationship between oil price fluctuation and the current account balance of Nigeria.

H1: There is a significant relationship between oil price fluctuation and the current account balance of Nigeria.

METHODOLOGY

This study utilized an annual time data series from 1987–2017 and used proxy for the each of the variables. For current account, which is the dependent variable of this study, this study used current account as a percentage of Nigeria's GDP and this data was sourced from the World Development Indicators (2018). For the independent variable, oil price was represented using the price of Brent Oil and this was obtained from BP Statistics (2018) while the rate of population growth rate was the proxy for population and was sourced from World Development Indicators (2018). Finally, the variable of trade is proxy as trade as a percentage of the GDP and it was also obtained from World Development Indicators (2018). To examine the aforementioned variables, this study formulated a model. It is this model that aided the investigation of the nexus between current account balance and oil price fluctuations using the sample size of Nigeria only. This model that is used for this study aligned with the model of Primicecri (2005), Baumesiter and Peersman (2013), and Gnimassoun et al. (2017). Considering the fact that this study drew insight on the model from varying sources, it is simplified in the linear equation below:

$$CA_t = f\left(ORP_t, PGR_t, GDP_t, TR_t, \mu\right) \dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots (1)$$

CA above indicates current account which is realized as the ratio of the percentage of the GDP, OPR signifies the oil price (Brent Oil), PGR is the population growth rate while GDP is the annual growth rate of the gross domestic product. TR signifies the trade which is realized as a percentage of the gross domestic product and t is the time-frame for which each of the above variables are measured, while μ is the error term of the equation.

When the above linear equation is transformed into linear-log form through including the natural logarithm of oil price, the model is expanded to become:

$$CA_t = f\left(InOPR_t, PGR_t, GDP_t, TR_t, \mu\right) \dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots (2)$$

When the above Equation 2 is specified in its econometric form, the model is thus:

$$CA_t = \delta_0 + x_1 InOPR_t + x_2 PGR_t + x_3 GDP_t + x_4 TR_t + \mu_t \dots\dots\dots\dots\dots\dots\dots (3)$$

In the above econometric form of the model, the intercept is δ_0 while the coefficient of the parameters in equation are the x_1 - x_4. As obtained in Equations 1 and 2, μ_t is the error term while t is the time.

While the above equation is the model for the parameters, there is a need to measure the short-run and long-run correlational relationship between current account and the independent variables (OPR, PGR, GDP, TR). To achieve this, the study engages the Autoregressive Distributed Lag (ARDL) Model. The short--run form of the ARDL model is specified thus:

$$\Delta CA_t = \vartheta + \sum_{l=1}^{p} \beta_1 \Delta CA_{t-i} + \sum_{l=1}^{q_1} \beta_2 In\Delta OPR_{t-j} + \sum_{l=1}^{q_2} \beta_3 \Delta PGR_{t-j} + \sum_{l=1}^{q_3} \beta_4 \Delta GDP_{t-j} + \sum_{t=1}^{q_4} \beta_5 \Delta TR_{t-j} + \delta ecm_{i-1} +$$
$$\mu_t \dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots (4)$$

The long-run model of the nexus between current account and oil price variations is specified below:

$$CA_t = \delta_0 + \sum_{l=1}^{q} \alpha_1 CA_{t-i} + \sum_{l=0}^{q_1} \alpha_2 InOPR_{t-i} + \sum_{l=0}^{q_2} \alpha_3 PGR_{t-i} + \sum_{l=0}^{q_3} \alpha_4 GDP_{t-i} + \sum_{t=0}^{q_4} \alpha_5 TR_{t-i} + \delta ecm_{t-i} +$$
$$\mu_t \dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots (5)$$

DATA RESULTS, ANALYSIS, AND DISCUSSION

Descriptive Statistics

The descriptive statistics explains the data behaviour over the years covered in the study. From the result, it was observed that the mean values of the variables are within their minimum and maximum values. This implies that they do not behave or trend outrageously while reacting to shocks over the years. From the Jarque-Bera result, except for current account balance which was found not normally distributed, GDP, PGR, TR and OPR are normally distributed as they have probability values greater than 10%. The skewness results all show positive values which implies a long-tail to the right for the variables distribution.

Table 1: Descriptive Statistics Result

	CA	GDP	OPR	PGR	TR
Mean	3.02	4.31	3.62	2.58	34.66
Maximum	20.74	15.33	4.72	2.68	62.76
Minimum	-6.29	-2.04	2.55	2.49	17.01
Skewness	1.11	0.45	0.14	0.10	0.32
Jarque-Bera	9.63	1.42	3.09	3.08	0.70
Probability	0.01	0.49	0.21	0.21	0.70
Observations	35	35	35	35	35

Source: Author (2022)

Correlation Matrix

The correlation matrix checks the linear association among the study variables. From the results, it was confirmed that the linear association between GDP and Current Account Balance (CA) in Nigeria is fairly strong with value at 0.50. Linear association between oil price, population growth rate and trade openness is low. However, the result confirms the absence of multicollinearity problem among the variables as none has a perfect linear association with CA at the value (1).

Table 2: Correlation Matrix Result

Variables	CA	GDP	OPR	PGR	TR
CA	1				

GDP	0.507	1			
	(0.002)**	-----			
OPR	0.289	0.229	1		
	(0.092)***	(0.185)	-----		
PGR	0.232	0.270	0.727	1	
	(0.180)	(0.117)	(0.000)**	-----	
TR	0.166	-0.093	-0.303	-0.449	1
	(0.341)	(0.596)	(0.077)**	(0.007)**	-----

The parenthesis ( ) denotes the probability values

Note: ** and *** implies significance level at 5% and 10% respectively

Source: Author (2022)

Unit Root Test

The unit root test was verified using the Augmented Dickey Fuller (ADF) test and the Phillips-Perron (PP) test. The tests were adopted to have a robust check of the presence of stationary problem among the data used in the study. From the result, it is confirmed that the variables (CA, OPR, TR and GDP) are stationary at levels $I(0)$ and first difference $I(1)$. This implies that there is a unit root problem among the variables, and the condition accepts testing for a long-run cointegration relationship among the variables. However, PGR stationarity is absent at both levels and after first differencing. This implies that the variable PGR would be dropped in the ARDL estimation model.

Table 3: Unit Root Results

Variables	ADF		PP	
	I(0)	I(1)	I(0)	I(1)
CA	-1.677***		-2.090	
OPR	0.598	-5.301**	0.767	-5.2516**
TR	-3.542**		-3.598**	
PGR	-2.846	-1.999	-1.574	-1.279
GDP	-3.795**		-3.693**	

Note: ** and *** implies significance level at 5% and 10% respectively

Source: Author (2022)

ARDL Bounds Test

From the long-run cointegration result using the ARDL bounds test, it was revealed that there is a long-run cointegrating relationship among the variables following the F-statistic which is greater than both the lower and upper classes.

Table 4: Correlation Matrix Result

F-Bounds Test		Null Hypothesis: No levels relationship		
Test Statistic	Value	Signif.	I(0)	I(1)
F-statistic	7.207332	5%	2.86	4.01
K	4	1%	3.74	5.06

Source: Author (2022)

Estimation Result

ARDL Estimates

The ARDL estimate is analysed following the automatic lag selection criteria of 2. From the short-run result, it was revealed that oil price impact on Nigeria's current account balance is positive and insignificant. This depicts that for every one percent change in oil price, current account balance increases by 3.7%. Trade openness and GDP impact on current account in the short-run is negative and significant at 10% and 5% levels respectively. This implies that changes in trade pattern between 1987 and 2021 contracts current account balances in Nigeria by 0.12% and 0.55% respectively.

In the long run, oil price impact on current account balances is negative and significant at 5%. This implies that for every one percent increase in oil price in the long run, Nigeria's current account balances declines by 5.2%. This validates that Nigeria's current account balance is heavily dependent on oil price trends. Trade openness impact on current account in the long run remains negative and insignificant. GDP impact on current account balance in the long run

is positive and insignificant. The implication of this is that as GDP changes by one percent, current account balance in Nigeria increases by 0.57%.

The Error Correction Model (ECM) measures the ability of the independent variables to correct deviations of the dependent variables from equilibrium in the short run to its position in the long run. From the result, 65% of the deviations in current account balances of Nigeria is corrected back in the long-run equilibrium by the independent variables. This implies that the variables are rightly selected.

Table 5: Correlation Matrix Result

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-43.4872	37.23321	-1.16797	0.2559
CA(-1)*	-0.65352	0.135117	-4.83669	0.0001
OPR(-1)	-3.40716	1.650821	-2.06392	0.0516
TR**	-0.12608	0.073965	-1.70462	0.103
GDP(-1)	0.370707	0.236563	1.567055	0.132
D(CA(-1))	0.320671	0.147073	2.180348	0.0408
D(OPR)	5.879845	2.23189	2.634469	0.0155
D(OPR(-1))	3.695411	2.853175	1.295193	0.2093
D(GDP)	-0.02179	0.170684	-0.12763	0.8997
D(GDP(-1))	-0.55123	0.164931	-3.34219	0.0031
Variable	**Coefficient**	**Std. Error**	**t-Statistic**	**Prob.**
OPR	-5.21357	2.860465	-1.82263	0.0826
TR	-0.19293	0.127368	-1.51473	0.1447
GDP	0.567249	0.346202	1.638495	0.1162
ECM				
ECM	-0.653518	0.099776	-6.549869	0.0000

Source: Author (2022)

From the above data distribution, it is evident that current account has different levels of relations with the examined independent variables. One of the major findings of this study is that there is a positive correlation between current account and GDP of a country. This means that transactional movements in a country's current account directly influences the GDP. This explains why Brissimis et al. (2010) argue that the relationship between current account and GDP stems from the fact that large and continuous deficits of a country's current account is a major source of economic challenge particularly as it relates to sustainability since the economic viability of a country is at risk in such scenario. On the other hand, a current account surplus is a signpost to a positively performing economy. In view of this, changes in the GDP of a country are effects of changes in current account.

In terms of the relationship between current account and oil price, this study discovered that there is an asymmetric relation between them and this is emphasized by the fact that an increase in oil prices, as evident in the ARDL analysis, elicits a negative reaction in the current account. On the other hand, a decline in global oil prices results in an increase of Nigeria's current

account. This finding is corroborated by that of Omoregie and Ikpesu (2018) who argued that the variations that are consistently witnessed in Nigeria's current account balance are a function of the variation in oil prices.

CONCLUSION AND RECOMMENDATION

It has been demonstrated in this study that current account is a major macroeconomic variable that is used to gauge the economic performance of a country. Having used the ARDL model to analyze data from 1987 to 2021, this study discovered that different levels of relationships exist between the dependent variable and the independent variables (oil price, GDP, trade, and population growth rate). Variables such as population growth rate, trade, and GDP were discovered to have a negative impact on Nigeria's current account balance. On the other hand, oil prices was discovered to have a negative impact on current account balances in the long run and positive impacts in the short run. Hence, while there are several transactional movements (imports, exports, foreign direct investment, payment for services, and international remittances, among others) impacts on the current account balances of a country, oil prices play a significant role in the current account balances. This is because oil prices play a significant role in the increase or decline in the value of a country's exports and imports, all of which make up a country's current account. What happens therefore is that Nigeria's current account is heavily impacted by fluctuations in oil prices.

In view of the above, this study recommends that there is a need to closely monitor transactional movements in Nigeria's current account for effective policy making. In addition, there is a need to strategically reduce the reliance on oil, through diversification into other forms of trade, so as to reduce the impact of oil price fluctuations on Nigeria's current account and, by implication, Nigeria's economic performance.

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