



CRUDE OIL PRICE AND BALANCE OF PAYMENT IN NIGERIA: AN ARDL-BOUND TEST APPROACH

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ABSTRACT: *This study investigates crude oil price and balance of payments in Nigeria using quantitative method of analysis with data spanned from 1991-2023. Inflation rate and exchange rate were insignificant while balance of trade was significant factor that influenced the country's BOP position. It was further discovered from the study that balance of trade, exchange rate and interest rate were negatively related to BOP, while WTI was positively related to BOP. It was discovered that the balance of payments has a long-run relationship with all the variables included in the model. Based on the findings, the study recommends that government should focus on diversification of the economy from oil to other sectors, such as the agricultural sector, service sector, trade, and commerce sector, etc. so as to have many export commodities and services which opens up different sources of revenue for the nation.*

KEYWORDS: West Texas Intermediate, Inflation Rate, Balance of Payment, Balance of Trade, Exchange Rate.



INTRODUCTION

The economy of Nigeria has been largely dependent on crude oil since 1956, when it was discovered, until 2021, when crude oil contributed about 9% of the gross domestic product of the nation. Nigeria has often had a daunting balance of payment (BOP) deficit due to its over-reliance on crude oil (Knoema, 2020). According to the World Bank, Nigeria had a negative \$15.4 billion and a negative \$16.9 billion in current account balance of payment in 2015 and 2020, respectively (The World Bank, 2023). While the balance of payment deficit shows high consumption and perhaps a high quality of life, it tells a different story when it becomes unsustainable. Nigeria has dealt with an unsustainable balance of payment deficit for a long time. This is evidenced in the frequent IMF loans, frequent naira devaluation, and frequent contractionary monetary policy (Oladipupo, 2011). Oil alone accounts for 40% of the country's GDP, 70% of budget revenues, and 95% of foreign exchange earnings.

According to the explanatory notes of the Central Bank of Nigeria statistical Bulletin, (CBN, 2019), BOP is defined as a systematic record of economic and financial transactions for a given period between residents of an economy and non-residents. Such transactions may involve the provision and receipts of real resources and changes in claims on assets and liabilities to the right-of-way (ROW). BOP specifically, records events and movement of income and expenditure, goods and services, as well as changes in ownership and other holdings of financial instruments monetary gold inclusive. Special Drawing Rights (SDRs) and claims on, and liabilities to, the ROW. The BOP also records current transfers - the provision or receipt of an economic value without the acceptance or relinquishing of something of equal value, or quid pro quo. It is a periodic report that summarizes the flow of economic transactions with foreigners. It provides information on the nation's exports, earnings of domestic assets owned by foreigners, international capital movements, and official transactions by Central Banks and governments (Kolte et al., 2021; Musili, 2021).

The overdependence of the economy on crude oil is indicative of the Dutch Disease Syndrome, which is explained as a structural economic imbalance emerging from mismanagement of oil income that brings about negative influence on the economy, thereby leading to lower prices for the nation's non-oil output in the highly competitive international market (Afolabi, 2019). This consequentially leads to uncertainty in fiscal planning expectations as regards to the price of crude oil, on which the economy depends. This price of crude oil is highly unstable and can hardly be influenced by a single country except in cases like Venezuela, Saudi Arabia or the Canadian government which have a large share of about 18.17%, 16.15%, and 10.35% respectively of global production.

Thus, based on the available literatures, the impact and implication of the crude oil production on BOP has not been fully harnessed for it to gained the required popularity. To fill this gap among others, this paper therefore aims at contributing to the existing studies that have been carried out in Nigeria on the subject matter. The broad objective of this study is to test the Marshall-Lerner hypothesis as crude oil price and production correcting mechanism in Nigerian balance of payment. Based on the Marshall-Lerner's Hypothesis, the study investigates the influence of crude oil price and balance of payment in Nigeria. Hence, based on the specific objectives of this study, the following null hypotheses is tested to provide answers to the research questions:

H₀₁: Crude oil price has no significant impact on balance of payment in Nigeria;



H₀₂: There is no significant relationship between the balance of trade and balance of payment;

H₀₃: Exchange rate has no significant effect on balance of payment in Nigeria;

H₀₄: Inflation rate has no significant effect on balance of payment in Nigeria.

Crude oil is arguably the most important global commodity as its uses cut across all spheres from domestic use to industrial use and there is no nation which is not involved in the trade of crude oil in one form or another (crude form, it's by products or its numerous derivatives). Several factors which range from geo politics, war, economic, social and health crises to demand and supply issues as well as growing environmental concerns and development of cleaner energy sources among others are the determinants of crude oil prices in the international market, hence, it is highly volatile and delicate and as well, has a very significant and pronounced impact on the macroeconomic stability of economies, be it an oil exporter or importer (Umoru, et. al., 2018).

The importance of crude oil cannot be overemphasized as it is the mainstay of the Nigerian economy, and with its price volatility over time even with the interception of privatisation and Dangote refinery, it then becomes germane that its impact on balance of payments be ascertained since balance of payments, otherwise called the balance of international payments is a very important macro-economic indicator as it serves as the balance sheet of an economy which defines the strong point of a nation's trade position. The scope of this study is limited to the time period of 1991 to 2023.

LITERATURE REVIEW

Stylized Fact in Oil Price and Balance of Payments

In this section, a graphical analysis of the dynamics of the study major variables over the scope. Doing this gives the scholar an idea about the data behaviour over the period. The figure below presents the graphical illustration of the movement of both oil price (WTI) and balance of payment (BOP) from 1991 to 2023. From the graph, WTI (brown line) shown a slight variation from 1991 up till year 1998 where it dipped a bit and aftermath maintained an increasing positive trend attaining its peak in the year 2011 (at a price of about \$98.83 for a barrel of crude oil using WTI as proxy). However, as a result of unstable exchange rate in Nigeria, the crude oil price was reported increased, but the price in dollar reduced as at 2023 as a result of more oil that was discovered in other countries which causes high competition of crude oil export among the oil-producing countries.

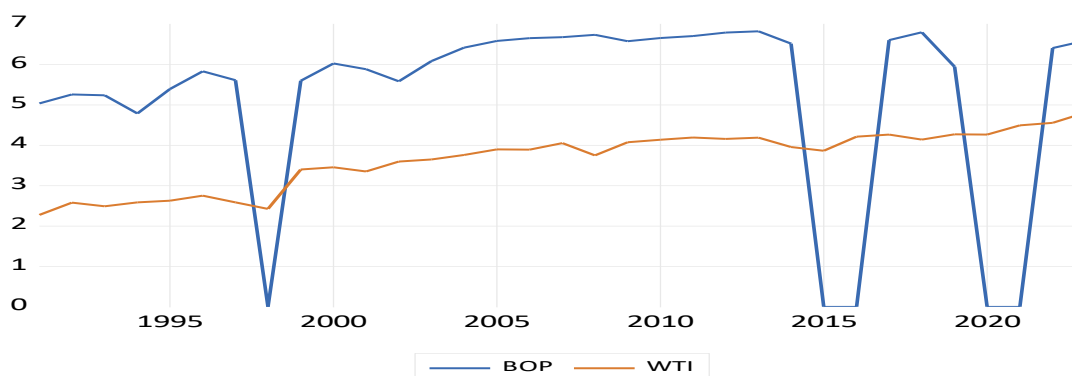


Figure 1: Trend of Oil Price and Balance of Payment



The price of crude oil per barrel was low between the year 1991 and 1998. However, the price picked up again in year 1999 at the price of \$25.76/barrel compared to \$12.14/barrel in the year 1998. It was moving on an increasing trend after year 2001 then it increased from year 2002 till 2007 while it experienced another fall in the year 2008. Since year 2009, the price has been increasing moving to the price as high as \$98.83 and \$98.17 in the year 2011 and 2013 respectively. The oil price started its fluctuation from 2014 till year 2023. This is an indication that in the past decade, the crude oil market became more unstable and Nigeria's overdependence on crude oil greatly exposes the economy to the shocks of the oil market. The behaviour of balance of payment in Nigeria revealed a fluctuation between year 1991 and 1997. However, it dipped down to negative in year 1998 then progressive improvement from year 2003 to 2008. It adjusted back fluctuating trend between year 2004 and 2014 with negative figures in year 2015 and 2016. The trend remained unstable between the year 2017 and 2023 with another negative experience in year 2020 and 2021.

Balance of Payment Theories

There are three balance of payment theories that examine balance of payment problems. The absorption approach discusses mainly the current account side of the balance of payment, the real sector (IS) (Pilbeam, 2013). This will cause a problem in Nigeria's balance of payment because the current account weakens and there is a current account balance of payment deficit. The monetary approach simply says that any disequilibrium in the balance of payment is due to disequilibrium in the domestic monetary sector (Pilbeam, 2013).

The Structural Approach: The Houthakker-Magee effect points to the fact that countries might just be producing the wrong goods (Bird, 2006). That is, the balance of payment problem is down to not producing the right goods. Wrong goods are classified as goods with low-income elasticity of demand. That is, as income increases the demand for these goods remains low. If a country is producing this kind of goods, its export doesn't increase with income. So, its export remains low, and it is forced to import goods with high income elasticity of demand, so the import keeps getting higher. As Nigeria only produces raw materials like agricultural products and crude oil, as the income of her trading partners increases, they don't have a proportionate increase in demand for these goods. Hence, Nigeria's export does not proportionately increase with income over time. On the other side, Nigeria must import goods with high income elasticity of demand as she does not produce them. Goods like technology often have high income elasticity of demand. This makes import higher than export and weakens the balance of payment account. This study adopts the structural approach as a theory of BOP in analysing the relationship between balance of payment and oil price in Nigeria.

Empirical Reviews

There are various researches carried out by previous scholars in connection to the main objective of this study. However, the following studies are considered for the purpose of identifying some gaps in this study and provide additional contributions for future analysis:

Bamaiyi, (2024) investigated the impact of oil price shocks on selected macroeconomic variables in Nigeria between 1990 and 2021. The study recommended policy measures to insulate the economy from international oil price shocks, such as diversification, encouraging local production, and creating a favourable environment for foreign direct investment. Chukwuma-Ekwueme, (2023) used a time series approach to discuss the impact of crude oil trade on Nigeria's economy. The findings of the study advocated for heightened interventions



by government entities and policymakers to institute rigorous monitoring mechanisms. Also, Nigeria should diversify its economy by focusing on non-oil exports. Kilanko, (2023) analysed the Nigeria's balance of payment crisis, the study showed that if Nigeria could consistently attain overall balance of payment surplus, the naira will be strengthened, and the economy will flourish. While the structural approach to adjusting balance of payment crisis seems to be the method with lasting economic change, it appears the most difficult to execute. Pamogho, et. al., (2023) examined the impact of Balance of Payments disequilibrium and implication for economic growth in Nigeria over the time frame of 1981 to 2020. From the findings, the study therefore recommended that Balance of payments position in Nigeria constitutes a structural problem that can hinder the attainment of potential growth.

Ibrahim, et al., (2020) investigated the balance of payments response to crude oil price asymmetry in Nigeria from 1981 to 2018 using the nonlinear autoregressive distributed lag technique. The study concluded that crude oil prices have direct link with the balance of payments, it was recommended that the authorities should encourage local production and discourage importation of consumer goods so as to reduce the weight assigned to crude oil in the balance of payments. Afolabi, (2019) analysed oil price fluctuations and Nigerian balance of payments using time series data spanning from 1987 to 2017 and employed auto-regressive distributive lag (ARDL) model. The study recommended that the appropriate authorities should consider diversification of the economy export base from oil, exchange rates review, inflation control measures as well as interest rate monitoring so as to get the best balance of payments position. Sakanko, et. al., (2019) examined the effect of oil price volatility on Nigerian balance of payment (BOP) from 1980 to 2017. The study recommended the diversification of Nigeria's export basket, for enhanced participation of non-oil products, coupled with the adoption of the Petroleum Industry Bill (PIB), so as to enhance the productivity and performance of the country's oil and gas industry, and making it internationally competitive. Abubakar, (2019) analysed the dynamics in the relationship between oil price and exchange rate in Nigeria by utilising monthly data spanning from 1986-2018. The study recommended among others the need for diversification of foreign exchange earnings base of the economy, so as to minimise the effect of negative shocks to oil price.

METHODOLOGY

The study employed the Ex-post facto research design with time series data spans between 1991 and 2023, allowing for a thorough examination of long-term trends and relationship. The study focuses on the variables of oil price, balance of payment, balance of trade, exchange rate and inflation rate. Quantitative data was sourced from the Central Bank of Nigeria's Statistical Bulletin and World Bank Information Publication (2023), ensuring the reliability and consistency of information. This data is estimated using Econometric Views version 12.

Model Specification

The estimation involves Auto-regressive Distributed Lag Models (ARDL), Bounds Test, Granger Causality Test, and adopted the model used by Afolabi, (2019). This modelling choice is well-suited for capturing the intricate dynamics between oil price and balance of payment in Nigeria. The model used by Afolabi, (2019) is presented below:



$$\text{BOP} = f(\text{OILP}, \text{EXR}, \text{INF}, \text{INT})$$

Where: BOP = Balance of Payment; OILP = Crude Oil Price; EXR = Exchange Rate;

INF = Inflation Rate; INT = Interest Rate

Therefore, the modified model of this study is specified in a functional form as follows:

$$\text{BOP} = f(\text{BOT}, \text{EXGR}, \text{INFR}, \text{WTI}) \dots \text{Eqn. (1)}$$

$$\begin{aligned} \Delta \text{BOP}_t = & \beta_0 + \beta_1 \Delta \text{BOP}_{t-1} + \beta_2 \Delta \text{BOT}_{t-1} + \beta_3 \Delta \text{EXGR}_{t-1} + \beta_4 \Delta \text{INFR}_{t-1} + \beta_5 \Delta \text{WTI}_{t-1} + \\ & \sum_{i=0}^p \beta_6 \Delta \text{BOP}_{t-i} + \sum_{i=0}^p \beta_7 \Delta \text{BOT}_{t-i} + \sum_{i=0}^p \beta_8 \Delta \text{EXGR}_{t-i} + \sum_{i=0}^p \beta_9 \Delta \text{INFR}_{t-i} + \\ & \sum_{i=0}^p \beta_{10} \Delta \text{WTI}_{t-i} + \text{ECM} + \mu_t \dots \text{Eqn. (2)} \end{aligned}$$

Where: Δ = the Difference Operator

BOP = Balance of Payment proxy for the dependent variable

BOT = Balance of Trade as control variable; EXGR = Exchange Rate; INFR = Inflation Rate;

WTI = West Texas Intermediate proxy for oil price as one of three global oil benchmarks

"f" is a function of and β_0 = Intercept

$\beta_1, \beta_2, \dots, \beta_{10}$ = Partial slopes of the linear regression model

ECM = Error correction model while μ = Stochastic error term

Data Analysis and Discussion of Findings

The summary statistics of the dataset utilised in the regression analysis were analysed, and the Unit Root test was conducted on each individual data series to determine the nature and stationarity of the data. The model previously mentioned in the preceding section was estimated utilising the Autoregressive Distributed Lag (ARDL) methodology and the estimates of the parameters of each variable are reported, discussed and used to answer the stated research questions. The ARDL-Bound test approach entails the estimation of a model that is over-parameterized, allowing for the inclusion of an arbitrary number of lags for both the dependent and explanatory variables. The ARDL model was selected due to the incorporation of the spillover effect of the previous regime into the current framework, which is essential in understanding the dynamics of crude oil price. The observed occurrence is consistent with the autoregressive nature, and the model aims to accurately represent this effect through the inclusion of lagged variables. Variables such as BOP, BOT, and WTI is loglinearilised in order to bring the value to same level of units with EXGR and INFR which are reported in ratio while the former were reported in currency values.

Descriptive Statistics

The table below presents the descriptive statistics of the data for the years 1991-2023. Summary statistics on the Mean, Minimum and Maximum of the variables presented in the model as displayed and discussed as follows:

**Table 1: Summary statistics**

Variables	Mean	Std. Dev.	Minimum	Maximum	Count
L [^] BOP	5.206504	2.304044	0.000001	6.821783	33
L [^] BOT	6.503739	0.655095	5.037769	7.316203	33
EXGR	178.4412	176.1685	9.870000	899.0700	33
INFR	19.02030	16.68887	0.200000	76.80000	33
L [^] WTI	3.659298	0.717136	2.276486	4.810462	33

Source: E-view 12 Statistical package

The summary statistics for the period spans between 1991 and 2023 are shown in the Table 1. It is explained that the average value of the loglinearilised BOP is ₦5.21 billion, while the minimum and maximum values are less than ₦1 and ₦6.82 billion between 1991 and 2023 respectively. It thus shows that there was a progressive increase in balance of payment over the coverage period of this study. The highest value of the loglinearilised BOT, ₦7.32 billion was extended in 2023, while the minimum value of the BOT over the period was ₦5.04 billion, also for this period the BOT was pegged on the average of ₦6.50 billion. The average exchange rate was ₦178.44/\$1, the highest rate of exchange between the Naira and US Dollar was pegged at ₦899.07/\$1 while the lowest rate for the period of this study was ₦9.87/\$1. The highest inflation rate was 76.80%, while the minimum rate of inflation over the period was 0.20%, also for this period the average inflation rate was 19.02%. The last dependent variable which is WTI proxied for crude oil price, averaged at ₦3.66 billion/barrel for the period of 1991 to 2023, the highest price of oil was ₦4.81 billion/barrel while the lowest price for crude oil was ₦2.28 billion/barrel. This price of crude oil was unstable over the period as a result of instability in the exchange rate because the study converted the WTI in US dollars to Naira in order to bring the currencies to the same level for accuracy in the analysis.

Table 2: Correlation Matrix Result

The study showed correlation coefficients to assess the presence of multicollinearity and over parameterization concerns.

Covariance Correlation	L [^] BOP	L [^] BOT	L [^] WTI	EXGR	INFR
L [^] BOP	5.147750 1.000000				
L [^] BOT	0.187247 0.127933	0.416144 1.000000			
L [^] WTI	0.127715 0.079710	0.429433 0.942657	0.498700 1.000000		
EXGR	-38.58914 -0.098042	72.87180 0.651165	92.33285 0.753686	30094.87 1.000000	
INFR	-1.633111 -0.043799	-6.426507 -0.606189	-5.771947 -0.497345	-415.7396 -0.145824	270.0784 1.000000

Source: E-view 12 Statistical package



Sequel to conducting regression models, correlation analysis was performed to examine the relationships between the coefficients of the dependent variable and the independent variables. The analysis shown in Table 2 revealed that two variables (BOT and WTI) under consideration exhibit levels of positive correlation with the dependent variable (BOP). Meanwhile, the levels of correlation between BOP and other two variables (EXGR and INFR) were negative with figures less than 1%.

Unit Root Test

Augmented Dickey-Fuller (ADF) unit root test is applied to examine the stationarity of the data used in this study. The decision on whether to reject or not reject the null hypothesis that the variable has a root unit root is checked at a 5% level of significance.

Table 3: Augmented Dickey Fuller (ADF) Unit Root Test at Stationary Points

Variables	ADF			Order of integration
	t-statistics	Critical values @5%	Prob.	
L ^Δ BOP	-4.594311	-2.960411	1.0009	I (0)
L ^Δ BOT	-5.416918	-2.963972	0.0001	I (1)
L ^Δ WTI	-7.072871	-2.960411	0.0000	I (1)
EXGR	3.119201	-2.957110	1.0000	I (0)
INFR	-4.809826	-2.960411	0.0005	I (1)

Source: E-view 12 Statistical package

The ADF URT test as shown in the table 3 provided evidence that balance of payment and exchange rate were stationary at level with their order of integration represented as I(0) while all balance of trade, crude oil price and inflation rate were all stationary at first difference with their order of integrations being I(1). The order of integration of the variables at different levels implies that the choice of model for the analysis will be the ARDL short and long-run if only the bound test shows that the variables are co-integrated or otherwise Vector Autoregressive model (VAR).

RESULTS AND IMPLICATION

Table 4: ARDL Short and Long Run Coefficients Model

Panel A: Short-run Dynamics Coefficient			Panel B: Long-run Dynamics Coefficient		
Variable	Coefficient	Prob.	Variable	Coefficient	Prob.
L ^Δ BOP (-1)	0.486747	0.0118	L ^Δ BOT	-1.990812	0.6685
L ^Δ BOT	6.521549	0.0184	L ^Δ WTI	4.026652	0.3600
L ^Δ BOT (-1)	-7.543339	0.0014	EXGR	-0.006936	0.2965
L ^Δ WTI	2.066691	0.2736	INFR	-0.013379	0.8383
EXGR	-0.003560	0.3021	C	3.868525	0.8320
INFR	-0.006867	0.8347	Serial Correlation Test		
C	1.985531	0.8270	R ²	0.30	
R ²	0.46		D-W Statistic	2.30	
D-W Statistic	2.05		F-statistic	4.90	0.0169



Panel C: Co-integration test					
F-Bounds Test	Null Hypothesis: No levels of relationship				
Test Statistic	Value	Significant	I(0)	I(1)	
F-statistic	2.983330	10%	2.2	3.09	
K	4	5%	2.56	3.49	

Source: E-view 12 Statistical package

Table 5: Engle Granger Causality Test

Null Hypothesis:	Obs	F-Statistic	Prob.
LBOT does not Granger Cause LBOP LBOP does not Granger Cause LBOT	31	0.35218 2.47698	0.7065 0.1036
LWTI does not Granger Cause LBOP LBOP does not Granger Cause LWTI	31	0.27184 5.05941	0.7641 0.0139
EXGR does not Granger Cause LBOP LBOP does not Granger Cause EXGR	31	0.63356 0.74370	0.5387 0.4852
INFR does not Granger Cause LBOP LBOP does not Granger Cause INFR	31	0.04087 0.49765	0.9600 0.6136

Source: E-view 12 Statistical package

The result of the Engle Granger causality test revealed that the crude oil price and other explanatory variables does not granger cause balance of payment as unidirectional causality was not reported to run from each of all explanatory variables and balance of payment.

DISCUSSION AND IMPLICATIONS OF FINDINGS

The ARDL co-integration bound test reveals that the computed F-statistics value of 2.98 is greater than the lower 2.56 {I(0)} but less than the upper 3.49 {I(1)} bound of the critical values at a 5% level of significance. The null hypothesis implies that there is no cointegration between variables in the model. Hence it can be concluded that there is cointegration among the variables on the long-run which means the null hypothesis (H_0) is accepted. Furthermore, the f-statistic is said to be significant if the probability of f-statistic is less than or equal to 5%. From the serial correlation test result obtained above, the probability value of f-statistic is 0.0169 which is less than 0.05. This indicates that the independent variables are jointly significant in explaining the dependent variable (BOP) at 5% level of significance. With this



decision of the model due to lag suggestions by the Akaike Information Criterion (AIC) and the Schwarz Information Criterion (SIC), the ARDL model which is known as the conditional ECM is discussed below

Panel A shows a short-run estimation of an auto-regressive distributed lag model. The findings of the study shows that the lagged value of crude oil price has a coefficient of 2.0667 which means that there is a direct relationship between the crude oil price and BOP, hence, a percentage increase in the value of crude oil prices will lead to a proportionate increase of ₦2.07 billion in the current value of BOP. Meanwhile, the p-value of 0.2736 implies that the relationship between WTI and BOP are insignificant, hence, the high oil revenue will not contribute a significant change to BOP position. Although, an increase in oil revenue will lead to a high availability of Dollar in the country which will appreciation for the Naira. The finding is in support of Afolabi (2019) which concluded that the economy should consider diversification of the export base from oil to maintain best balance of payments position. Also, the study found a negative and significant relationship between balance of trade and balance of payments, a percentage increase in the lagged value of BOT lead to a decrease in BOP by ₦7.54 billion which denotes that if the trade of the nation is increasing as a result of difference between exported goods and imported goods then it will significantly increase the balance of payments. Likewise, the study found an indirect and insignificant relationship between exchange rates and balance of payments, a percentage increase in the lagged value of exchange rate leads to a decrease of 0.004 percent in the current value of BOP. The implication is that a decrease in the exchange rate promotes a favorable balance of payments position in the economy. This finding confirms the Dutch disease theory which postulates that an increase in oil revenues will make Nigeria naira to be stronger against other nation currencies, thus leading to balance of payments disequilibrium (Milan, et. al., 2010). Also, the inflation rate has an insignificant negative relationship with the BOP. This is expected because, in the real sense, an increase in general price level will result to BOP deficit. The negative coefficient (0.0069) of inflation shows that a lower inflationary rate will reduce the external sector economy but in an insignificant approach. It implies that a moderately inflationary rate is inessential for a favorable balance of payments position. The coefficient of determination, (R^2) shows goodness of fit of the regression line. From the result, about 46% of the variations in the dependent variable is explained by the explanatory variables while the remaining 54% is capture by factors outside the model. Also, the Durbin Watson statistic of 2.05 is within the region 1.75 to 2.50. Panel B, crude oil price (WTI) coefficient has a positive but an insignificant relationship with BOP. Also, exchange rate, inflation rates and balance of trade are indirectly related with BOP. Thus, all the independent variables have insignificant relationship with the BOP on the long-run. The F-statistic shows that in the long run, the models are jointly significant in explaining the variations in the balance of payments in Nigeria, although the low R-squared value shows that there could be improvements on the variables.

CONCLUSION AND RECOMMENDATIONS

This study investigated crude oil price and balance of payments in Nigeria using quantitative data collected from CBN spanned from 1991-2023. The study employed the Auto Regression Distributive Lag (ARDL) technique of estimation in investigating the variables and found that crude oil price had an insignificant impact on the balance of payment within the study period in Nigeria. Also, inflation rate and exchange rate were insignificant while balance of trade was



significant factor that influenced the country's balance of payments position. It was further discovered from the study that balance of trade, exchange rate and interest rate were negatively related to balance of payments, while crude oil price was positively related to balance of payments. It was discovered that the balance of payments has a long run relationship with all the variables included in the model. Based on the findings from this study, it is therefore concluded that oil price is one of the major factors of macroeconomic stability in Nigeria. It has positive influence on the country's balance of payment position due to over-dependence on oil revenue and poor performance of non-oil export. Exchange rate is a decreasing function of balance of payment as much as inflation rate is. Based on the findings the following are recommended; government should focus on diversification of the economy from oil to other sectors, such as the agricultural sector, service sector, trade, and commerce sector, etc. so as to have many export commodities and services which will open up different sources of revenue for the economy and reduce over-reliance on oil earnings and hence a favourable balance of payment position. This can be achieved by providing basic social amenities and infrastructural facilities, protection of infant industries from foreign competitors by placing tariffs, embargo, licensing, etc. and appropriate government policies and incentives so as to boost productivity of the non-oil sector for export activities. Also, the government should aim at a favorable exchange rate to avoid foreign goods inexpensive as against local products in order not to discourage exports as decreasing exchange rate promotes export. Although inflation was not significant to balance of payments but negatively related, the government should ensure low inflation rates in order to avoid consistent decline in the balance of payments, and increase the purchasing power of income.

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