Cause or Curse? An empirical study of the linkages between Oil Revenues and Nigeria’s current Exchange Rate and Inflation crises

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Background
- Oil-producing developing countries (OPDC) heavily depend on oil export revenues.
- Their macroeconomic variables - exchange rate and the CPI may be affected by price and volume volatility.
- The 2014 oil price shock and reported production losses are argued to have caused unprecedented currency depreciation and inflation in Nigeria (Onigbinde 2016; BBC 2016).
- It is also believed that the crises were complicated by long-term mis-management of oil revenues by successive governments – curse.

Methodology
- Relevant data from 1995–2016 sourced from authorities.
- Analysis based on RSE and IVE regression models in equations (1) and (2) below:

\[
CPI = \alpha_0 + \alpha_1 \text{PRICE} + \alpha_2 \text{VOL} + \alpha_3 \text{EXCHR} + \alpha_4 \text{MONEY} + \alpha_5 \text{PLR} + U_1t
\]  

\[
\text{EXCHR} = \beta_0 + \beta_1 \text{PRICE} + \beta_2 \text{VOL} + \beta_3 \text{IMPRT} + \beta_4 \text{FXRES} + U_2t
\]  

- Robust mix of econometric tools to test for various aspects of the models.

Research Questions
- Do oil price and production volume Granger-cause nominal exchange rate?
- Does nominal exchange rate Granger-cause inflation?
- Do oil price and production volume Granger-cause inflation?
- Are other macroeconomic variables important in the determination of the CPI?
- Does long-term cointegration exist among the research variables?

Conclusion
- A long-term curse linkage exists and this vulnerability makes significant shocks to currency depreciation, spike inflation and possibly recession when protracted.
- To strengthen their currencies, OPDCs must utilise oil revenues to develop other productive sectors of their economies and ensure good governance.

References