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IMPACT OF OIL PRICE SHOCKS ON NIGERIAN ECONOMY: A REVIEW OF LITERATURE

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Abstract
The theory of oil price shocks has generated a lot of academic debate.There are concerns from various regulators, stakeholders and investors on the impact of oil price volatility on economic development. This study review relevant literature related to oil price shocks and the effect on Nigerian economy growth. The review literature contained journals published in the period 1983-2017. There are mixed findings as some authors relate their work on the relationship between oil price shocks and capital market returns while others look at effect on macroeconomic variables. The findings revealed that oil price shocks on microeconomic variables are well researched in developed economies compare to emerging or developing economies. The study also find that oil price shocks have significant effect on Nigerian economy as this slower the economic growth, and there are calls for government as a matter of urgency diversify the economy. The main conclusion is that corruption has affected the socio-economic development in Nigeria and reduces investors' confidence in doing business in the country. Government should encourage small and medium enterprise by providing incentives and quickly fast track policies that will ease the means of doing business in Nigeria. Adequate awareness should also be in place in tackling corruption and other social vices.

Keywords: Oil Price Shocks; Corruption; Economic Growth; Recession; Exchange Rate; Capital Market.

Introduction

The recent crash of crude oil prices in the market has created a lot of hardship to Nigeria citizens where almost 90 per cent of her Gross Domestic Product (GDP) is derived from oil, and also the recent pronouncement of economy recession keep on creating turmoil while many multinational companies and their local counterpart retrenching there workers. Nigeria greatly depend on oil proceed to carryout infrastructural development in the country. Over the years, oil has been the main stream of economic development of the oil producing countries especially the African countries. One cannot underestimate the significant influence of crude oil price on Nigeria economy. The fall in oil prices and the impact of this shock varies from country to country depending whether it is importer or exporter of oil.

In the case of Nigeria, the oil prices crash have reduced the inflow of foreign exchange which has impeded development. The country is popularly called mono-economy because of its reliance on oil neglecting other sectors which can also generate inflow. Another problem with Nigeria is that most of the crude oil is not refine in the country, this bring another saying amongst its citizens that the product is export/import that is, Nigeria send its crude oil to other country for refining then import it back from that country and later re-export to the needed countries. This method had been in existence for years because of the nature of dilapidated refineries which is either cannot produce at the capacity level or not functioning. The theory of oil shocks can be attributed to Hamilton (1983) where other researchers now staged their findings. Li, Zhu and Yu (2012) investigate the relationship between oil prices and the Chinese stock markets, the authors' evidence that there is positive effect of oil prices on sectoral stocks in the long-run when using panel co integration. Further, they believe most of the existing research mainly focuses on the relationship between oil price and stock market at country specific. However, going by Ono (2011) revealed that most empirical studies mainly focused on oil price shocks to determine GDP growth at production level without considering the effect on stock prices. Another contribution by Masih, Peters and Demello (2011) suggest that the significant effect of oil price shocks is more pronounced in oil-importing countries, especially where they have weak economic policies, low foreign exchange reserves and access to international capital markets is limited. Greenspan (2004) positioned that with an open economy policy the impact of oil price shock is difficult to infer in modern market-based economies. This oil price shocks is caused by exogenous factors which sometimes can be unpredictable.

The significant effect of oil price shocks is also well researched in Nigeria by (Olomola & Adejumo, 2006; Adeniyi et al., 2011; Akpan, 2009; Aliyu, 2009; Ayadi, 2005; Chuku, 2012; Iwayemi & Fowowe, 2011), there are mixed evidence from the authors as to the effect on Nigeria economy. The drop in oil prices dwindle the external reserves preventing the government from carrying out capital projects that will have meaningful impact on its citizens. These shocks have also affect the economy through high cost of production leading to closure of many small and medium enterprises and, also the double digits of inflation rate. Not only that the drop in oil price reduced inflow of revenues, people also took the advantage to introduce all forms of "Ponzi Schemes" as a means of livelihood. However, government has been working there way out through different economic policies to diversify the economy and minimising the cost of government. This policy seems to not yielding any tangible results so far. The dwindling inflows of oil revenue as led to budget deficit which also increase external borrowing. Furthermore, in the last 12 calendar months, the world oil price drastically fell, leaving the OPEC countries and other stakeholder finding ways to curb the situation. Adaramola (2012) revealed that increase in world oil price improves balance of payment and disposable income, increase external reserves and expand trade balances.

There is debate by OPEC members on the modalities to regulate oil prices and cut or limit the number of barrels produce. OPEC has the power to regulate the world's oil market and to regulate the price at which crude oil could be sold at international level. The world oil price have reshaped the Nigeria economy, this could be a rise or fall in the price. This article reviews literature related to oil price shocks and the impact on Nigeria economy. The impact of oil prices can be viewed in two ways, namely (a) the positive impact of oil price shock on Nigerian economy (b) the negative impact of oil price shocks on Nigeria economy. The review will be structured around the two modalities using available manuscript published in reputable academic journals.

Review of Relevant Literature

The current economic hardship in Nigeria as a result of oil price shocks, since the country greatly depend on the proceeds from petroleum and other hydro products. The oil price shocks not only applicable to Nigeria but the effect is more pronounced compare to other oil producing countries. No wonder the Minister of Finance Kemi Adeosun (2016) and the head of Nigeria Apex bank described Nigeria economy retrogressing into state of recession. Economic recession usually denotes negative GDP, increase in unemployment so as demand shock. The National Bureau of Economic Research (NBER) simply defined recession as a significant decline in economic activities that spread across the economy which can last more than months with adverse effect on GDP, employment, real income and industrial production. Furthermore, before the recent drop in oil prices, the economy had been seriously mismanaged by government. Okunroumu (1993) opined that Nigerian economy has been counterproductive as a result of bad policies and wrongful management of economic resources as this will result in impediment to achieve macroeconomic stability. Salisu and Mobolaji (2013) models the returns and volatility transmission between oil price and US-Nigeria exchange rate, the authors find that an increase in oil price volatility may result in decrease in Nigeria currency to that of US dollar. Further, considering the recent happenings in Nigerian economy as a result of decline in prices of crude oil, the Nigerian naira is relatively low to US dollar. There were calls from captains of industries and external bodies for government to devalue the naira in order to ease the means of doing business in the country. The government at a stage was reluctant to devalue the currency, leaving it open for market to determine naira rate to that of dollar. Devaluation of Nigeria currency will lead to high cost of imported goods and raw material. The increase of imported goods and the restrictions place on some imported goods by the government is affecting many industries, as some of them complain of inability to import raw material due to embargo. Many construction companies also complain of the embargo especially the "quarry" because they believed that part of the equipment they use in blasting rocks are also being use by Islamic extremist in Northern part of Nigeria. Nevertheless, government should relax embargo on goods and other production material in which the country do not have comparative advantage pending when such sectors will be revamped. Diversifying the economy had been a long call but due to oil boom and the revenues from oil, the government pay little attention to other sectors. There are wide spread of corruption, economic sabotage, internal crisis and other form of social vices. Olomola and Adejumo (2006) opined that oil price shocks do not have significant effect on output and inflationary rate rather the effect is more pronounced on real exchange rate. One can go contrary to Olomola and Adejumo (2006) looking at the current situation of Nigerian economy, where there is increase in inflation, drop in output as a result of Niger Delta Militant unrest and also drop in demand at international level. Ono (2011) conclude that oil prices indicators have significant impact on China, India and Russia economy, but not significant for that of Brazil. In relation to macroeconomic stability as result of oil price shocks, Jimenez-Rodriguez and Sanchez (2005) examine the influence of oil price shocks using data of G-7 countries. The authors believe that the real GDP growth when there is persistence rise in oil prices have significant effect compare to when the oil prices fall. Chang and Wong (2003) conclude that oil price shocks have insignificant effect on macroeconomic variables in Singapore.

Oil price shocks was first recorded in 1970s, after which series of macroeconomics studies had been conducted by academicians to unravel the relationship between oil price shocks and economic growth. These shocks can be temporal or permanent depending on how the macroeconomic effect and how oil exporting nation and consumers react to it. The shocks can be categorized as demand and supply relationship. In another contribution by Ekong and Effiong (2015) document that Nigeria's macroeconomic aggregates may not experience significant effects irrespective of where oil price shocks originated from. Binuomote and Odeniyi (2013) examine crude oil price effect on agricultural sector in Nigeria. The authors suggest that through diversification of crude oil and proper encouragement of rural farmers, provision of modern farming technologies and availability of fertilizers at subsidize rate that agricultural sector can contribute to GDP growth. Providing farmers modern technologies for production and processing on one hand will help the farmers, on the other hand, government should provide adequate training to rural farmers through agricultural extension workers. Ammani (2011) observed historical analysis of Nigeria oil boom and the effect on agricultural sector 1973-1983. The author concludes that during the period of oil boom, the sector received highest allocation compare to other sectors, that the neglect of agricultural sector is not as result of Nigeria over depended on oil; the problem can be attributed to natural resources curse, Dutch diseases and wrong economic policy. Similar findings are reported by Suleiman and Yau (2016) analyse time series data on real GDP, contribution of oil rents, contribution of agricultural and manufacturing in real GDP as well as exchange rate and FDI using VAR models. The authors result shows that Dutch disease syndrome, policy failure and corruption are the main problem of Nigerian economy rather than oil price shocks. However, Olajide, Akinlabi and Tijani (2012) find that agricultural sector was neglected during 1970s oil boom. Farzanegan and Markwardt (2009) also observe Dutch Syndrome Diseases on Iranian economy through significant real effective exchange rate appreciation.

Nigerian Stock Exchange and Economy Development

The market is always faced with forces that lead to variations in return. Some of these forces are internal to firm and others external depend on which one has significant effect on share prices. Internal factors are sometimes called unsystematic risk because it is controllable while external factors consist of systematic risk which is beyond management power, generally uncontrollable, which has significant effect on prices of securities. In US, Odusami (2009) believe that in an efficient stock market, the arrival of unexpected information of crude oil prices fluctuation have significant effect of discrete jumps in market returns. Killian and Park (2009) suggest that the effect of oil price shocks on US stock market returns differs substantially, depending if it is shock resulting from production which has lesser effect on stock prices or precautionary demand shocks that have significant effect on stock prices. Jimenez-Rodriguez and Sanchez (2005) revealed that oil price shocks create high inflationary rate and reduce industrial production in Japan.

Cavallo and Wu (2006) also experiment the effect of oil price shock on US economy using VAR model of three variables namely output, inflation and oil prices. They found that oil price shocks lead to output decline and price increase. No such evidence of oil price shocks effect on Turkish Stock Market returns is documented by Aydogan(2015) rather the effect of stock returns can be attributed to global financial liquidity. Going by available data, more research have been conducted on oil price shocks and stock market returns in developed economies compare to emerging and developing oil exporting countries. Using Nigeria setting, Lawal, Somoye and Babajide (2016) is of belief that oil price and exchange rate volatility have significant effect on share prices on Nigerian stock exchange. Nigeria is still among largest oil producers in the World. Meanwhile, some research document that increase in oil prices lead to slower GDP growth and possible recession, higher unemployment rate and high price level (Balke, Brown &Yucel, 2002; Jones, Leiby & Paik 2004; Killian 2008). A later study by Syed (2014) provides some insights on oil price shocks. The author document that drop in World oil prices will have negative effect on stock markets in oil-exporting countries most especially those in the Middle East.

Meanwhile, economic policy changes may also mitigate development when proper documentation and policy actualization is faulty. Meanwhile, in Iran, Emami and Adibpour (2012) opined that adverse oil revenue shocks impede economic development, and urge government to diversify the economy, reduce its expenditure and establish stabilization and savings funds which can be channel for infrastructural development during oil burst. Further, their findings also revealed the effect of oil price shock on oil exporting countries whose economy mostly depend on oil proceeds and weak institutional policy. As a result of oil price volatility, the Nigeria government in 2004 created Excess Crude Account (ECA) to pave ways for any short fall in revenue generated and also to channel the fund for infrastructural development. Due to high level of corruption, this fund had been diverted or shared amongst different arms of government without any meaningful development.

Izuchukwu (2011) states that agricultural sector has contributed to the Nigeria GDP in past decades through poverty eradication and employment generation. In support Ahungwa, Haruna and Abdusalam (2014) find that agricultural sector contribute immensely to GDP, urge government to provide workable policies, increasing budgetary allocation and creating enabling environment for the sector to grow in order to accelerate economic growth. One will agree with Basher (2014) going by the current happenings in Nigerian stock exchange which has so far lead to drop in market capitalization as a result of world oil price shocks. Even with the current oil price volatility and the persistent attack of oil facilities by Niger Delta Militant, the Nigerian government should dialogue with them through appropriate channels.

In 2016 Nigeria lost about $100 billion in oil revenues due to militant attacks and this also resulted in Angola taking over as the top producer of crude oil in Africa, the position Nigeria has occupied for years. Peterson (2012) listed ways in which Nigeria economy can improve without being affected by oil price volatility and any other external factors. According to the author, economic diversification, strong fiscal monetary policy, accountability and resources transparency, privatization of the industry and direct distribution of oil revenue are remedies to economy wore.

From date, government as in one way or the other privatized most of the industry without yielding any result. The only successful privatization to date is telecommunication industry. Adams, Osho and Coleman (2011) contend that government and Shell Company should involve activist groups in distributing revenues to oil producing communities and deviate from unfair practices. Abraham (2016) examines the effect of crude oil prices volatility and exchange rate on the Nigerian stock market applying Autoregressive Distributed Lag (ADL) model. The results shows positive effect of oil price shocks on market returns and devaluation of naira as effective tools of reducing oil price volatility on the stock market. Adeniyi, Oyinlola and Omisakin (2011) argue that oil price shocks have minimal effect on macroeconomic variables in Nigeria. The author counters some of the findings and recommendations related to oil price shocks and other macroeconomic variables in Nigeria. Therefore, whether Nigerian economy is affected by current oil price shocks and exchange rate volatility is an empirical question. Kareem, Osisanya, Raheem and Bashir (2012) find that the global financial crisis and exchange rate volatility have significant effect on oil revenue in Nigeria. Much research has been conducted in that area using VAR model. Ogunjimi, Aderinto and Ogunro (2015) also analysed the relationship between non-oil sector and economic growth.

The authors conclude that oil exportation in crude form and export of product (non-oil) does not contribute to Nigerian economy growth compare to export of finished products. They further advise government to transform the export of both crude oil and non-oil from raw material to finished product. Using internal variable such as fuel scarcity to assess business growth in Nigeria by (Kate, Obiageli, Uzochukwu & Onyilofor, 2016) conclude that SME growth and profitability not hampered by fuel scarcity but government should implore modalities to stop fuel hording, economy sabotage, bunkering and vandalization of oil pipelines.

Most studies examine the association between stock market and other macroeconomic variables on economy development. Donwa and Odia (2010) examine the impact of Nigerian capital market on socio-economic development from 1981-2008 using GDP as a proxy for socio-economic while market capitalization, total new issue, nature of transaction and total listed equities as government for capital market variables. The result of the study shows that capital market indices have no positive impact on the GDP that government should put in place policy to revamp the market and restore investor confidence in order to bring socio-economic development to Nigeria. Similar, Kolapo and Adaramola (2012) also examine the impact of Nigerian capital market on economic growth from the period of 1990-2010 using economic growth as proxy for GDP and market capitalization, total new issues, value of transaction, and total listed equities and government stocks as capital market variables. However, comparing their results, the authors indicates that market capitalization and total listed equities have positive impact on economic growth while value of transactions and total new issues have negative impact on economic growth.

There exist empirical research using Asian setting as Zhang (2008) believes that there is a non-linear relationship between oil price shocks and economic growth in Japan. Tian (2016) relates oil prices volatility to oil-specific demand, that oil-specific demand lead to high prices of oil while stable supply during global economic recession and withdrawal of oil-specific demand resulted in decline in oil prices. Gomez-Loscos, Gadea and Montanes (2012) analyse the relationship between oil price shocks and macroeconomic variables of G-7 countries. They conclude that oil price shocks on economic development are more pronounced in 1970s and gradually disappear in subsequent years. Robert Becker (2008) investigate the rate at which net financial inflows, World oil prices, US growth rate, and the lagged real exchange rate affect Mexican economy in 1979. The author concludes that the liberation policies and formation of NAFTA have significantly reduced external shocks on economic growth.

Corruption and Underdevelopment of Nigerian Economy

Going by available corruption index by Transparency International 2016, Nigeria still ranked 136 out of 176 most corrupt nations. Corruption is simply referred to as misappropriation of public funds or resources by the nation’s elites; it hinders progress and under develops a nation. Hope Sr (2017) finds that institutional weaknesses and abuse of cultural norms are the most pressing problem fuelling corruption in Nigeria. Corruption can simply be categorized as political, bureaucratical and cultural. With more than 170 million of total population and the giant of Africa as popularly called, corruption as crippled Nigerian economy even with the existence of anti-corruption graft and different institutional policy, the rate of political corruption still the greatest obstacle to economic development. Either the government officials enjoy some form of immunity or they are not tried in any court of law due to high level of godfatherism in Nigeria.

The level of corruption in Nigeria had prevented foreign investors in doing business which greatly reduced foreign direct investment (FDI). Ogundiya (2009) acknowledged that political godfatherism be discouraged and severe punishment should be in place to tackle corruption in Nigeria. Going by available data as shown below, corruption remain the main obstacle to economic growth.

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Table 1: Selected of Principal Actors in the Arms Procurement Deal under Formal President Good luck Jonathan

S/N	Name of those involved	Corrupt Acts/Stolen Amount Involved	Status of the Case
1	Sambo Dasuki (Former National Security Adviser (NSA)	Accused of money laundering and breaching the public trust/over $2 billion	On trial
2	Bashir Yuguda (former minister of State for Finance	Received ₦1.5 billion from the NSA's office; including ₦1.275 billion; collecting ₦775 million from the Office of the Accountant General of the Federation	On trial
3	Chief Raymon Dokpesi	Received ₦2.1 billion from the office of the NSA for campaign and media coverage of President Jonathan's re-election	On trial
4	Attahiru Bafarawa (ex-Governor of Sokoto State)	Received ₦4.6 billion form the NSA's office for spiritual purpose	On trial
5	Olisa Metuh (PDP Publicity Secretary)	Received ₦400 million from the office of the NSA's Central Bank Account	On trial
6	Sagir Bafarawa (son ex-Governor of Sokoto State)	Received $4.6 billion from NSA's office (acting as front for his father)	On trial
7	Abbah Mohammed (son of ex-National Chairman of PDP, Mohammed Bello Haliru)	Received ₦600 million in the name of Bam Properties	On trial
8	Air Vice Marshal Saliu Atawodi (Rtd.)	Diverted ₦600 million meant for the procurement of military boats to fight insurgency	On trial

Sources: Ehikioya 2015, November 18; Nnochiri, 2015, December 8; Daily Post, 2015, November 17; Nwabughiogu, 2015, November 18 cited in Ayodeji, 2016.

From the table above, corruption is the only system that works in Nigeria even with the presence of anti-graft agency like EFCC and ICPC. Nevertheless, the present administration is doing its best to rip out corruption in the country, so far so good, huge amount of naira and other foreign currencies has been recovered.

Several studies provide evidence on Niger Delta Militant attack and economic sabotage in Nigeria. Mahler (2010) conclude that the incessant attacks and the continuous violence by Niger Delta Militant is as a result of economic sabotage, political influence and external forces in illegal oil theft and the security agency involvement exacerbate the level of conflicts in the region. Obi (2010) also blame government for inequitable distribution of oil proceed among the oil producing communities as the main reason for conflicts between the militant and the multinational companies exploring in the region. The study advocate for economic transformation in a way that is beneficial to the majority of oil producing communities. Leite and Weidmann (1999) believe that natural resources abundance, ineffective government policies and political power influence corruption. Dreher and Gassebner (2013) also believe that corruption facilitate economic growth entrepreneurial development in highly regulated economies.

In an early study on corruption, Ihonvbere and Shaw (1998, p.15) cited in Agbiboa (2013) "corruption has reduced the legitimacy of the state, eroded the credibility of political leaders, replaced merit and hard work with strong and complex patron-client relations accentuated inefficiency, ineffectiveness and general disorder in the bureaucratic apparatus and led to mismanagement, waste and, ultimately, economic crisis".

Conclusion

Oil prices shock has long drawn the attention of academics, regulators and investors in oil and gas sectors and the effect on economic growth depend whether the country is an oil exporting or importing country. The research focuses more on Nigerian setting, however, there are also cross countries comparison as to the effect of oil price shocks on economic growth by reviewing several articles published in reputable journals. There are mixed evidence as to oil price shocks and other macroeconomic variables on the nation's economy stability. Our government must be hold responsible for the recent economic wore.

The most important part of the research is to identify the impact of oil price shocks on Nigerian economy and also to recommend solutions in which the economy could be managed in order to prevent future negative impact on the socio-economic activities in Nigeria. Most of the literature review on oil price shock and capital market focused more on developed

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economies. However, there are relatively low evidence of oil price shocks effect on market returns and share prices using emerging and developing market. In Nigerian case, most of the literature review recommends diversification of the economy by revamping the agricultural sector as the only solution for economy wore. Some called for proper fiscal and monetary policies to ease the current weak in naira compare to other major currencies.

The problem of Nigeria is beyond economy diversification or Dutch syndrome or what others called resource curse. The problem can be related to corruption from the top government down to lower authority. With the level of corruption in Nigeria, even if the agricultural sector is revamp supplement with oil proceeds, the case will still be the same. From review one can conclude that Nigeria problem is 'human resource curse' because, before the discovery of oil when the agricultural sector was the only source of revenue there was infrastructural development as the then government displayed leadership quality with high level of transparency and accountability. More awareness and campaign should be in place to educate the citizens on corruption by creating anti-corruption club to complement the anti-corruption agencies. Thus the fight of corruption should be rallied round all ties of government; from the executive to legislative and judiciary so also strong institutional mechanism to prevent corruption and punish those that steal the nation's wealth. The newly introduce whistle blowing policy by government to curb corruption and other forms of social vices is yielding a positive development. The system will provide 5% of any recovered funds to the whistleblower in as much the information given are not publicly known information. However, the problem of the policy is that there is no constitutional backing to protect the whistleblower. There is also need for government to encourage small and medium enterprise by providing incentives and quickly fast track policy that will ease the means of doing business in Nigeria.

Researchers and academics should generate more data on the effect of oil price shocks at cross countries level in order to proffer solutions that will have meaningful impact and also help regulators and oil producing countries formulate future policies to regulate the oil and gas sector. Government should dialogue with Niger Delta Militants by engaging stakeholders and activist in finding lasting solution to pipeline vandalism and other youth agitations. Also the community should be provided with adequate infrastructure that will transform the region.

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