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Research Article

Oil Price, Impact and Growth in Nigeria Economy

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Abstract

Nigeria has witnessed the implications of the regular reduction in global crude oil prices since July 2014 and this led to the decline in the country's foreign reserves, currency problems, government income, and even the possibility of defaulting on debt payments when they are due. The price of oil fell by a staggering 64.5% between 2013 and 2016. Oil was not Nigeria's main source of income. Instead, the country has always relied on agricultural exports to keep its economy going. Between 1960 and 1966, more than 90% of the population worked in agriculture, which was the main source of income for the country. But due to the advent of oil boom in the 1970s, mining and, oil seemed more important than agriculture and this placed agriculture in the state of relegations and disarrays. However, since 1970s till date, Nigeria's GDP was mostly supported by oil profits (around 59%). Despite this, oil prices are subject to fluctuations and this can have impacts on the growth of national economy, therefore, it is essential to look at how these changes might influence Nigeria's economy owing to the volatility of crude oil prices. In view of the above, this paper used analytical approach to review; crude oil and oil price in Nigeria, Nigerian's economic growth in the context of oil price volatility and Dutch disease syndrome.

Keywords: *oil price, fluctuations, implication, growth and Nigerian economy.*

Introduction

Nigeria's economy depends on the oil industry, and the government gets most of its money from it. Since this information can help policy makers and citizens make plans for the future, like diversifying the economy, it is important to look at how changing oil prices affect economic growth so that the economy doesn't become too dependent on oil revenues (Alenoghena, 2020). The price of crude oil has a great effect on many countries' politics and economies, especially oil-dependent countries like Nigeria. Also, real-world research has shown that oil prices change all over the world, with different effects in each country depending on how much their economies depend on the commodity (Sule-Iko, S., & Ibrahim, A. 2021).

Those who believe that a nation's GDP will increase due to a rise in oil prices argue that the government will be able to generate more revenue from oil exports. Alenoghena (2020) based its arguments on data from nations that are net oil importers. There is significant inflation, little demand for goods other than oil, high input costs, and low investment in these nations. Yet, the decrease in oil prices has caused economic havoc on countries that are net exporters of crude oil. (Which reduces national income and increases budget deficits). This has caused crude oil prices to fluctuate widely as supply and demand shifted. Although the impact of fluctuating crude oil prices on GDP growth has been the subject of much debate, economists and policymakers have yet to reach a consensus on the topic. While research by Uche and Effiom (2021) suggests it may promote growth, research by Soyemi, A., Akingunola, O., & Ogebc, J. (2019)'-suggest it may inhibit development.

Crude oil has never been more important than it is today. Crude oil truly came into its own in the 20th century, when it eclipsed coal as the world's major energy source. (Adeleke, O., Philip, N., & Harold, N. 2019). The quantity of oil used has quadrupled over the last half-century, and oil and natural gas now account for more than 70% of world energy utilization (Sule-Iko, S., & Ibrahim, A. 2021). The shift from coal to oil in the energy sector was largely driven by technological advancements. Refined oil can be used to power vehicles, homes, and factories, as it has a major role in the world economy (Uche and Effiom, 2021).

Oil was not Nigeria's main source of income (Alenoghena, 2020). Instead, the country has always relied on agricultural exports to keep its economy going. Between 1960 and 1966, more than 90% of the population worked in agriculture, which was the main source of income for the country. But due to the oil boom in the 1970s, mining and, especially, oil became more important than agriculture (Sanusi *et al*. 2022). This puts agriculture in the background. Nigeria's GDP in 1970 was mostly supported by oil profits (around 59%). As a result, oil prices, even if they fluctuated little, would have a significant effect on the economy (Umar & Abdulkhakeem, 2010). Yet, it is essential to look at how these changes might influence Nigeria's economy owing to the volatility of crude oil prices.

Nigeria has seen the implications of the continuing reduction in global crude oil prices since July 2014. The most obvious signs of this are the decline in the country's foreign reserves, currency problems, government income, and the possibility of defaulting on debt payments when they come due. From a peak of USD105.87 in 2013 to a low of USD40.76 in 2016 (World Bank, 2015), oil prices have plummeted from their all-time high. The price of oil fell by a staggering 64.5% between 2013 and 2016. As a result, we may conclude that there will be a flood of new rules and regulations from policy makers, with substantial discussion among economists about which rules and regulations should be implemented.

In reaction to the drop in global oil prices, dwindling foreign exchange reserves, and economic slowdown that began in 2015, the Nigerian government depreciated the naira (the country's official currency) by 8% in October 2015, from N155 to N168. Since October 2015, when it was N168, the official Nigerian naira exchange rate has fallen to N485 in 2023. Nigeria's inflation has continued to skyrocket since 2014. A combination of a weak naira following devaluation and increased costs across the board (including housing, food, nonalcoholic drinks, and transportation) led to the highest inflation rate since 2005.

The oil sector, which is the major GDP in Nigeria, witnessed a major contraction in 2016 with a decline of-13.65%, exceeding the -5.45% decline in 2015. This resulted in a decline in the oil sector's share of real GDP from 9.61% in 2015 to 8.42% in 2016 (The National Bureau of Statistics (NBS) in Q4 2016). Aside its impact on the growth, the sector also enhances monetary variables and contributes to a high unemployment rate, as opined by Blanchard and Gali (2007). According to Adedokun (2018), citing Nweze and Edame (2016) and information from the Central Bank of Nigeria (CBN) in 2019, approximately 75% of government income and an average of 93% of foreign earnings from trade was generated from oil exports over the past decade. These income sources have played a key role in financing the country's imports.

Empirical and theoretical studies by Raifu and Oshota (2022) have shown that there is price volatility in the global oil market. The effects of this volatility on the economies of different countries will depend on how much they depend on oil. Nigeria is the seventh-largest exporter of processed oil in the world. This makes up about 90% of the country's total export income and more than 70% of the government's annual budget. Examining how this uncertainty may affect Nigeria's economic growth is, therefore, essential for nation building and economic growth. Many people think that the changing price of oil has caused financial crises and the fall of governments around the world. In the light of these, this paper used analytical approach to review; crude oil and oil price in Nigeria, Nigerian's economic growth in the context of oil price volatility and Dutch disease syndrome.

Crude oil and Oil Price

Crude oil is a thick, viscous liquid that is often referred to as a hydrocarbon owing to its composition of primarily carbon and hydrogen (Akpan, 2012). Although certain high-quality crude oils, such as Bonny Light, are sulphur-free, non-hydrocarbon components are nevertheless present, with sulphur, nitrogen, and oxygen being the most frequent. Hydrocarbon reserves make up crude oil, an unprocessed petroleum product that is undoubtedly present. Petrochemicals, diesel fuel, and gasoline are all produced from crude oil. On a global basis, crude oil is traded. The prices of crude oil produced in different regions of the world tend to move in unison, even if there are always going to be quality disparities between the heavier, higher-sour (heavy-sour) and lighter, lower-sulfur (light-sweet) grades (Olutoye, 2005).

It is a common practice to refer to the value of a barrel to benchmark crude oil as the price of crude oil. The market value of a barrel of crude oil depends on a number of factors, including its specific gravity, sulphur content, and location. Moreover, the cost of crude oil is the primary influence in setting the rates for energy-intensive commodities and services. Although alternative fuels (such as natural gas, coal, and electricity) can't fully replace crude oil, their prices are

tied to oil's (particularly in the transportation industry). Therefore, changes in the price of crude oil have a significant effect on the GDP of nations that import and export oil (Hakeem *et al*, 2015).
When we speak about ups and downs in the cost of crude oil, we are referring to fluctuations in the market for this commodity. The extent to which costs fluctuate over certain periods is referred to as price volatility. When there are large price swings in the short-term, market volatility is high. When prices are consistently stable, market volatility is low. Historically, crude oil price swings have been attributed to factors such as supply disruptions, including OPEC supply quotas, political turmoil to the oil-rich Middle East, and terrorist activity in the Niger Delta Region (Akpan, 2012).

When a country's human resources, consumption, capital stock, and trade volume all rise, as well as when its per capita output or income rises considerably and consistently, we speak of economic growth, as defined by Jhingan (2005). Increases in real GDP per hour worked are a leading economic indicator. The word stems from the fact that worker productivity has developed over time. The standard method of measuring economic development is the GDP growth rate. The distortionary effect of inflation on product and service pricing is often eliminated when growth is assessed in real terms. As a country progresses, its quality of life improves. Real GDP, new capital, market capitalization, and foreign reserves are all measures of economic expansion.

The real gross domestic product (GDP) is an indicator of economic output that takes inflation and deflation into account. It's a method for gauging economic health that factors in both rising and falling prices. It's a way to calculate GDP that factors in both rising and falling prices. To gain a true picture of growth, it is necessary to examine GDP at constant prices. If this isn't taken into account, it may seem that a country is expanding output even though actual costs are going up. This helps to clarify the economic output that results. Find out which sectors of the economy are really productive by looking at GDP in real terms.

Capital may be created in one of two primary ways. Both people and things may fall into this category. Physical capital includes things like plants, equipment, firm assets, and currencies. Human capital refers to an individual's accumulated store of knowledge and abilities that may be put to productive use in the economy. The human factor is what makes our material assets useful. Harbison (1973) estimates that people make up about 80% of a country's wealth. Capital creation is the intentional accumulation of a nation's stockpile of capital assets, as defined by Nwikina (2000).

A company's market capitalization reflects its size and the volume of its stock trades (Nzotta, 2014). It reveals trends and regularities throughout economic activity. Most countries' official reserves are held in foreign currency. Uche (2008) defines a nation's external reserves as its total foreign assets that are under the direct and effective supervision of the central bank and can be quickly and confidently put to use. The degree to which a nation exercises unilateral control over its overseas holdings is one indicator of economic growth.

Petroleum is essential to the functioning of the economy in many ways, including transportation, power generation, and other vital functions. Since crude oil is essential to the global economy, any changes in its price might have far-reaching effects. Crude oil is a thick, viscous liquid that is often referred to as a hydrocarbon owing to its composition of primarily carbon and hydrogen. Although certain high-quality crude oils, such as Bomiy Light, are sulphur-free, non-hydrocarbon components are nevertheless present, with sulphur, nitrogen, and oxygen being the most frequent.

From crude oil, we get gasoline, diesel fuel, and petrochemicals. Crude oil is traded on a global scale. Prices for different types of crude oil produced in different parts of the world tend to move in tandem (Olutoye, 2005), despite persistent quality differences
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between the lighter, lower-sulphur (light-sweet) grades and the heavier, higher-sulphur (heavy-sour) crudes. It is common practice to refer to the price of a barrel of benchmark crude oil as the price of crude oil. The market value of a barrel of crude oil depends on a number of factors, including its specific gravity, sulphur content, and location.

The price of crude oil is the primary influence in setting the rates for energy-intensive commodities and services. Although alternative fuels (such as natural gas, coal, and electricity) can't fully replace crude oil, their prices are tied to oil's (particularly in the transportation industry). As a result, swings in the price of crude oil have far-reaching effects on the economies of both oil-exporting and oil-importing countries (Flakeem *et al*, 2015). When we speak about ups and downs in the price of crude oil, we are referring to fluctuations in the market for this commodity. The extent to which prices fluctuate over a certain period of time is referred to as price volatility. When there are large price swings in a short amount of time, market volatility is high. When prices are consistently stable, market volatility is low. Historically, crude oil price swings have been attributed to factors such as supply disruptions, including OPEC supply quotas, political upheavals in the oil-rich Middle East, and terrorist activity in the Niger Delta Region (Akpan, 2012).

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When people talk about "oil prices," they usually mean the current market value of a barrel (159 liters) of a standard crude oil. Crude oil value serves as a benchmark for the industry, but they are set by market forces outside of the control of any one nation (Adeleke *et al*, 2019). The cost of oil is the financial value attached to the oil and the exchange rate of most oil producing countries is tied to the cost of oil. For the fact that oil is key to the economy, many people have thought about and written about how changes in oil prices affect the economy. According to Omoke and Uche (2021), oil has seen more extreme price swings than any other commodity. Soyemi *et al*, (2019) investigate the factors that affect oil prices over time and find that seasonal shifts in demand are mostly to blame. Between 1948 and 1970, the price of a barrel of oil jumped and dropped between $0.25 and $0.50. He blames the oil market's volatility for N everything from the Middle East war to OPEC's price controls. But as Olayeni *et al*, (2020) note oil is subject to the same market dynamics as any other commodity, which is why its price tends to vary greatly.

Raifu and Oshota (2022) opine that everyone knows that when oil prices rise or fall, they may have a huge effect on the economy of any nation. But people have disagreed about whether or not the network is needed to explain the effect. Gounder and Bartleet (2007) assert that the effects of the crude oil crisis on the demand side could lead to a big rise in unemployment and inflation. This was corroborated by another study by Uche and Effiom (2021). According to his findings, nations like Nigeria and Nigeria suffer economically when oil prices rise, while countries like Russia, which also produces oil, benefit. Many questions are raised by this finding. Additionally, Olomola (2006) looks at how the volatility of oil prices explains GDP growth and unemployment in Nigeria.

Okere *et al*, (2021) buttress that it is a big problem that Nigeria's budget is so dependent on oil sales. The fluctuations in the price of oil have made it necessary to make big changes to budget data and government spending. When Nigeria gave up on its strategy and goals under these circumstances, it hurt the country's economic growth. In the same way, Adeleke et ah, (2019) showed that Nigeria's large economic growth might have been expected after the country's oil boom in the 1970s led to more money, jobs, savings, and private and public investments. As buttressed by Alenoghena (2020), the global economic collapse that occurred between 1978 and 1982 was the worst since the Great Depression. However, oil prices were very relevant to Nigeria's economic growth prospects.

Even though oil prices have recently gone up, Nigeria has been criticized for its slow growth and large budget deficit. Duncan (2008) claims that Nigeria is both an oil importer and an exporter. According to Alenoghena and Aghughu (2022), nations that export oil benefit from oil price volatility while those that receive oil suffer. Thus, the Nigerian economy seems to be in a peculiar state at the moment. As long as Nigeria's budget depends heavily on oil money, studies examining how price swings in the oil market have stunted the country's development will proliferate. Still, this research > makes a genuine attempt to build upon related work.

Economic Growth

A long-term, steady rise in net national product or per capita national output is referred to as economic growth. The numerical increase in the cost of products and services generated within an economy over a given period of time is another way to measure economic growth. Economic growth is calculated as a % change in the GDP or GNP (Dwivedi, 2004). Economic growth is one of the key macroeconomic policies that countries continue to strive to achieve and Nigeria is not exempted.

Abiola (2005) says that economic growth can happen in a country even if most people don't know why it's happening. He goes on to say that for the economy to grow, production methods need to change, old technology needs to be replaced, consumers need a wider range of goods and services, and the environment needs to be safe and free. When a country makes better use of its resources and makes more things, its economy grows. As a result, it encourages a fairer distribution of resources. The cumulative consequences of small shifts in growth rates become apparent when a decade or more has passed. When the economy is growing and flourishing, redistribution of wealth is easier than when it is declining and stagnating (Haller, 2012). The growth of a nation's output or income is often used as an indicator of economic well-being. Both GNI and GDP are used to measure economic growth (Cypher and Dietz, 2004).

Cypher and Dietz (2004) say that a country's GDP is the total amount of money it makes from selling its goods and services, no matter where those goods and services end up being used. He also said that, the gross national product (GNP) is the "market value of all final goods and services produced in a country," whether they are sold domestically or abroad. As GNI covers GDP as well as pay for workers and property salaries earned abroad but does not include earnings acquired domestically by non-residents, Sweeney (1999) contends that GNI is the greatest indicator of economic progress. Hence, GDP will stand in for economic growth for the sake of this analysis.

Nigeria's Economy in the Context of Oil Price Volatility

Nigeria's economy is one of the most complex in the world because it relied on exports and imports. The value of Nigeria's exports was $104.8 billion in the same year, while imports were $70.8 billion. The upshot was an increase in trade surpluses. Crude oil accounts for 74.3% of all exports from Nigeria, while refined oil accounts for 15% of all imports (EIA, 2016). Hence, oil exports have a larger effect on the economy than oil imports. Nigeria's economy is more sensitive to swings in oil prices since it exports oil rather than consumes it.

Since Nigeria both buys and sells crude oil, its economy is especially vulnerable to changes in oil prices. Nigeria, like many other oil-importing countries, will see its economy grow more slowly and inflation rise as a result of higher oil prices (Mordi and Adebiyi, 2010). Oil exporting nations like Nigeria gain economically from price increases because of the increased money from oil sales. According to Alenoghena (2020), dropping oil prices are negative for the economies of nations that depend on exports for cash.

A nation that profits from oil exports would see an increase in revenue as the price of oil increases, but the Dutch illness syndrome might dampen those gains. This difference is because corporations haven't changed how they use their resources to match the unpredictable changes in oil prices. As the price of oil increases, businesses that rely heavily on it increase their production, while those who are less reliant on it must reduce theirs. Ayadi (2017) asserts that because oil prices have gone down and the market isn't as big as it used to be, the encouraged reallocation of resources has had to be turned around. Even though the price of oil and other production costs have gone down, factors of production do not move freely between industries. So, a reduction in the price of oil per unit may not spur as much growth in the sectors as a rise in the price of oil per unit did. As a consequence, changes in the cost of crude oil are likely to cause significant decreases in national output (Coady *et al.*, 2007).

Dutch Disease Syndrome

The Dutch disease was the brainchild of economists which describe the economic situation that followed the discovery of natural gas reserves in the Netherlands in the 1960s. The Dutch disease therefore, describes an economic phenomenon where a country diverts all attentions to the rapid development of a specific high-income and lucrative industry while neglecting other sectors of the economy(Raimi,2025). Dutch disease occurs when a country discovers a substantial natural resource deposit and begins a large-scale exportation of it. As a result, the country's currency appreciates, thereby reducing the competitiveness of the country's traditional export sector. Therefore, Nigeria’s experience with the oil industry is a prototype of the Dutch Disease.

Dutch disease syndrome is brought on by oil price fluctuations, which make it difficult for oil- pricing. It has been suggested that the country's future wealth should be invested in the oil industry's riches. Exporting nations like Nigeria to maintain stable economies and stable governments. The "Dutch disease" refers to the possible detrimental effects on a country's industrial industry caused by an increase in that country's natural resource supply (Sule-Iko and Ibrahim, 2021). To investigate the potential negative effects of de-industrialization on a small, open economy after a natural resource boom, Okere et al, (2021) conceptually evaluated the Dutch sickness syndrome. It is assumed in this analysis that resource-rich nations may be classified into two categories: those that produce exportable items and those that do not. The natural resource boom will have an impact on the national economy in two ways: resource development and associated expenditure. Potentially leaving the production sector once resources are depleted. This may reduce output in sectors that do not provide marketable products. Government spending increases when times are good, aiding economic growth at home and currency appreciation (Sule-Iko and Ibrahim, 2021).

A developing economy can't benefit from the oil price boom since it can't handle the influx of cash without causing inflation, as Mieiro and Ramos (2010) point out. A less developed economy's capacity to spend money and use up resources is strained when it receives a large sum of money from oil exports. Increases in marginal productivity brought about by the expanding export industry led to a rise in variable consumption costs. As a result, the export industry benefits at the expense of agriculture, manufacturing, and non-tradable industries. Economic de-industrialization happens indirectly as a consequence.

Dutch disease syndrome in Nigeria

The weak strategic plan of the country is the direct cause of the differences in the basic structure of the economy. This difference shows that the non-oil sector is going down and the oil industry is going up. The medical community has agreed to call this a syndrome known as Dutch disease. Since at least the 1970s, this has been a well-known fact about Nigeria. The government's lavish spending, made feasible by the comparatively high price of oil, pushed up inflation and currency exchange rates (Budina and Wijnbergen, 2008).

An extraordinary influx of funds was made possible by the abrupt and drastic increase in oil prices around the world in the early 1970s. Even though most of the money was supposed to be spent to help the economy, inflation was stoked and distributional imbalances that were already there were brought to light. Early in the 1970s, oil prices dropped because demand fell all over the world. They stayed low until late 1975 when OPEC stepped in to raise them. Romanova (2007). According to Florence and Chioma (2019), rapid economic expansion followed the end of the Civil War, with the oil boom of the 1970s playing a significant role. This aided the government's efforts to speedily industrialize the nation. As a result of its rapid economic development (about 8% yearly) and the subsequent resuscitation of several sectors, Nigeria had the largest African economy by 1980.

These eras should not be idealized as problem-free. Traditional societal institutions were bolstered by corrupt practices. The government plays a crucial role in the redistribution of wealth. The government's role in the economy grew as the need for foreign currency waned. There was a dramatic decline in private sector vitality as oil costs skyrocketed. The usual economic policy during this period prioritized consumption over output. Still, a dramatic drop in oil prices causes a recession and necessitates further remedial actions. (Nwosa, 2020).

Conclusion

Oil was not Nigeria's main source of income, instead, the country has formerly relied on agricultural exports to keep its economy going. Between 1960 and 1966, more than 90% of the population worked in agriculture, which was the main source of income for the country. But due to the oil boom in the 1970s, mining and oil became more important than agriculture. This puts agriculture in the state of relegation and disarrays. Nigeria's GDP in 1970 was mostly supported by oil profits (around 59%). As a result, oil prices, even if they fluctuated little, would have a significant effect on the economy. Therefore, there is need to review the impacts of oil price on the growth of Nigerian economy. In view of the above, this paper used analytical approach to review; crude oil and oil price in Nigeria, Nigerian’s economic growth in the context of oil price volatility and Dutch disease syndrome.

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