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The Impact of Oil Revenue on Economic Growth in Nigeria (1981-2018)

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Abstract: The study examined the impact of oil revenue on economic growth in Nigeria (1981-2018). The secondary data collected on the economic variable used in the study were sourced from the Central Bank of Nigeria Statistical Bulletin and National Bureau of Statistic. An Augmented Dickey Fuller unit root test, autoregressive distributive lag (ARDL) method and ARDL bound test for co-integration with various other diagnostic techniques were employed for the study. The result revealed that exchange rate (EXCR), real gross domestic product (RGDP), petroleum profit tax (PPT) and oil revenue (OREV) were stationary at first difference (I(1)) and it was discovered that the inflation rate (INF) was stationary at level (I(0)); on ARDL, the result showed that the previous values of the economic growth (RGDP (-1)) and oil revenue were directly related with the economic growth (RGDP) in Nigeria; it was also revealed that the petroleum profit tax (PPT), inflation rate (INF) and exchange rate (EXCR) were inversely related with the economic growth (RGDP) in both the short and long run. The fitted ARDL model was statistical significance and as such reliable and appropriate for examining the impact of oil revenue and other identified economic variables on economic growth in Nigeria during the period under study. Hence, there was a need for government to formulate appropriate policy that could engender better and judicious used oil revenue to enhance the growth of the Nigerian economy. The entire loopholes to oil revenue generation should be blocked to ensure that fund is properly channel for the growth of the economy. Also, government should take a bold step towards the diversification the economy from oil in order to encourage the growth of the economy from other sectors of the economy.

Keyword: Oil Revenue; Petroleum Profit Tax; Economic Growth; ARDL; Co-integration (Bound test)

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1. Introduction

Prior to the discovery of oil in Nigeria, agricultural sector was the main stay of Nigeria economy, contributing about 95 percent of foreign exchange earnings, generating over 60 percent of employment capacity and contributing approximately 56 percent to the gross domestic earnings (World Bank, 2013). The major exportable crops were cocoa, palm products, cotton, ground nut, timber and rubber, with these products constituting most of Nigeria's exports, Agriculture was the leading sector of the Nigerian economy while oil export was not as attractive as it was been witnessed today. In fact, available literature on the Nigerian economy has it that Nigeria was primarily an agrarian economy, whose revenue generation was based on agriculture. Data records from the Nigerian National Bureau of Statistic indicated that between 1958 and 1969, the contribution of petroleum to gross domestic product at current factor was just 0.007 percent. On the other words, agriculture could be referring to as the mainstay of the country's economy, accounting for higher percentage of gross domestic product at the time. However, after the discovery of oil in commercial quantity, petroleum industry in Nigeria became the largest industry. Oil provided approximately 90 percent of foreign exchange earnings and about 80 percent of nation's revenue which contributed immensely to the gross domestic product as a measured of the Nigerian economy. Crude oil became the dominant resources in the mid-1970s. Onshore oil exploration accounts for about 65 percent of the total production and it is found mainly in the swampy areas of the Niger Delta, while the remaining 35 percent represents offshore production involves drilling for oil in the deep waters of the continental shelf. The massive increase in oil revenue as an aftermath of the Middle-East war of 1973 created unprecedented, unexpected and unplanned wealth for Nigeria and as such led to the dramatic shift in policies to ensure a holistic approach to benchmark of the state of oil sector (Oladipo & Fabayo, 2012; Ogunmakin, Adebayo & Dada, 2014).

Nigeria is said to have an oil production capacity of about 2.45million bbI/day, while consumption is about 310,000 bbI/day (2005 EST). As at 2006, the level of consumption increased to 312,000 bbI/day with production level of 2.352 million bbI/day (2006 EST). Nigeria, as at 2007 ranked 38th position in the world with respect to oil consumption. From these facts, it is quite obvious that Nigeria, despite the decrease in oil production in 2006, still has an increase of oil consumption rate. There is rapid growth in oil consumption in Nigeria, which currently stood at 7 per cent and oil prices which continue to be volatile, due to this, there is much on what to be done to ensure continuous growth regardless of the global market. This volatility has come from international shocks caused by financial crises, strikes, wars and decreased oil production. It is because of this volatility in oil prices and Nigeria's dependence on oil that many economists raised concern about the future of the economy. As alternative fuels become more popular and oil importing countries continue to discover oil deposits, there is a need for the Nigerian economy to look to

other, more manageable sources of foreign exchange and government revenue to spur economic growth (Igberaese, 2013). The enormous revenues from oil, of course, presented net wealth and thus provided opportunity for increased domestic investment; however, the huge revenues complicated macroeconomic management and made the economy highly oil dependent. Despite the huge revenue from oil, the economy still couples with many problems including high and rising unemployment rate, declining manufacturing production, negligence of agricultural sector, high and rising level of poverty, low per capital income and poor infrastructural development. The dismal performance of the Nigerian economy in the face of huge rent from oil has rekindled interest on oil revenue and economic growth process in Nigerian. Therefore, even in the oil sector and its associated revenue, a question is then asked, where are we going? What will be our future and considering the all the potentials of the oil sector and it revenue drives, is oil responsible for the boom or doom of the Nigeria economy?

The study established an empirical relationship on the role that oil revenue has plays on the Nigerian economic growth. Conclusions and recommendations drawn from this study can be adopted by the government to amend the defects encountered through the failure of oil spending in Nigeria to translate into meaningful economic development and substantial contributions to the country's gross domestic product. This Study also serve as an important reference tool for oil companies and equally useful for the government and her agencies in formulating policies as well as a decision-making document for private organizations operating in the oil field.

2. Literature Review

2.1. Oil Revenue

Oil revenue refers to the income earned from the sale of crude oil. Budina and Van-Wijnbergen (2008) asserted that oil is the dominant source of government revenue, accounting for about 90 percent of total exports, thus, approximately 80 percent of total government revenues. Since the discoveries of oil in the early 1970s, it has become the dominant factor in Nigeria’s economy. The problem of low economic performance of Nigeria cannot be attributed solely to instability of earnings from the oil sector, but as a result of failure by government to utilize productively the financial windfall from the export of crude oil from the mid 1970’s to develop other sectors of the economy.

Petroleum Profits Tax (PPT) and Its Administration in Nigeria

The focus of petroleum profits tax in Nigeria is the upstream sector of the petroleum industry which deals with oil prospecting, mining and production. Crude oil production is taxed at the rate of 85% on export and 65.75% on domestic sale of oil

within the periods under review (Kiable & Nwikpasi, 2009). In view of this, Adekanola (2007) posited that tax law have the vested authority to assess, administer and collect all taxes from corporate entities on the Federal Inland Revenue Services. Taxes administered at the Federal level include the petroleum profits tax, companies' income tax, and the value added tax as well as the capital gain tax. Thus, the administration of taxes in Nigeria was also focused on revenue generation to the detriment of stimulating economic growth and development.

Gross Domestic Product (GDP)

According to World Bank Report (2011), the gross domestic product (GDP) at purchaser's prices is the sum of gross value added by all resident producers in the economy plus any product taxes and minus any subsidies not included in the value of the products, It is calculated without making deductions for depreciation of fabricated assets or for depletion and degradation of natural resources. The Central Bank of Nigeria (2010) defines GDP as the money value of goods and services produced in an economy during a period irrespective of the nationality of the people who produced the goods and services. It is usually calculated without making any allowance for capital consumption (or deductions for depreciation).

2.2. Theoretical Review

Classical Theory of Economic Growth

The traditional classical and neo-classical growth models developed by Solow (1956) and Mincer (1958) in the late 1950's, showed that an economy grows in response to larger inputs of capital and labour (all physical inputs). Non-economic variables such as human capital or human health variables have no function in these models. This theory revealed how capitals including technology leads to increase in productivity and efficiency of workers and expand production of goods and services. In economic lexicon, this simply means that the technological progress is "exogenous" to the system. The neo-classical growth theory as modelled by Solow (1956) emphasized the view that economic growth is a result of the accumulation of physical capital and an expansion of the labour to be more productive. Therefore, this study considers the role of economic Lexicon and neo-classical impacts on the gross domestic products (GDP) in the Nigerian economy.

Resource Endowment Theory of Growth

The major advocates of this theory were Adam Smith "absolute cost advantage" in 1776 and David Ricardo "Comparative cost advantage" in 1817 among others, they argue that countries should specialize to produce and export according to their comparative advantage. The theory of comparative advantage suggests that a country gains the greatest economic benefit relative to other countries by producing at lower

overall cost, commodities which a country has in abundance or can be easily produced. Other countries will therefore benefit form trade only if they accept the cost advantage of the trading country and focus on producing a commodity in which they have an advantage. It is this theory that guides resource endowment economist's belief in free trade, specialization and the international division of labour. This was attributed to why some countries produce agricultural and mineral commodities while others produce industrial goods (Igbeasere, 2013).

The Resource Curse Theory

The resource curse concept was introduced by Richard Auty in 1993. It was also known as the paradox of plenty and refers to the failure of many resource-rich countries to benefit fully from their natural resource wealth, and for governments in these countries to respond effectively to public welfare needs. While one might expect to see better development outcomes after countries discover natural resources, resource-rich countries tend to have higher rates of conflict and authoritarianism, and lower rates of economic stability and economic growth, compared to their non-resource-rich neighbors. Auty (1998) was the first author to use the term resource curse to describe how countries rich in natural resources were unable to use that wealth to boost their economies; these countries had lower economic growth than countries without an abundance of natural resources.

2.3. Empirical Review

Odularu (2008) carried out a study on crude oil and the Nigerian economic performance. The aim of the study was to ascertain the impact of crude oil on the Nigerian economy. The study analysed the relationship between the crude oil sector and the Nigerian economic performance using the Ordinary Least Square regression method. The study found that crude oil consumption and export have contributed to the improvement of the Nigerian economy. The study concludes that the production of crude oil (domestic consumption and export) despite its positive effect on the growth of the Nigerian economy has not significantly improved the growth of the economy, due to many factors like misappropriation of public funds (corruption) and poor administration.

Akinlo (2012) carried out a study on how important is oil in Nigeria's economic growth? The study assessed the importance of oil in the development of the Nigerian economy over the period 1960-2009. The study used secondary data. The multivariate cointegration VAR model developed by Johansen (1988) and Johansen & Juselius (1992) was used. Quarterly time series data of GDP indices of the five sectors over the 1960-2009 were used in setting up the VAR model namely: agriculture, manufacturing, building & construction, oil and trade & services. The study found that the five subsectors were cointegrated and that the oil caused other

non-oil sectors to grow. However, oil had adverse effect on the manufacturing sector. Granger causality test found bidirectional causality between oil and manufacturing, oil and building/construction, manufacturing and building/construction, manufacturing and trade/services, and agriculture and building/construction. It was also revealed that a unidirectional causality from manufacturing to agriculture and trade/services to oil.

Ibeh (2013) investigated the impact of the oil industry on the economic growth performance of Nigeria. Using ordinary least square (OLS) regression technique, gross domestic product was regressed against oil revenue and time appeared as regressor's. The test for the significance revealed that the two explanatory variables did not have any significant impact on growth performance of the Nigerian economy within the same period. Thus, it was emphasized that government should formulate appropriate policy mix that would motivate the firm in the oil sector to enhance improved performance and contribution of the sector. Ayuba, (2014) investigated the impact of non-oil tax revenue on economic growth in Nigeria, using secondary data collected from the Statistical Bulletin of the CBN from the period 1993 -2012. The study employed ADF Unit Root test, error correction model and OLS technique to analyze the data collected on the variables. The results showed that non-oil tax revenue impacted positively on economic growth in Nigeria

Usman, Madu and Abdullahi (2015) carried out a study on evidence of petroleum resources and Nigerian economic development (2000-2009). The main objective of the study was to examine the impact of petroleum on Nigeria's economic development. The variables were two, that is, crude oil Revenue and the gross domestic product (GDP). The study was based on secondary data. Data was sourced from the Central Bank of Nigeria Statistical Bulletin and National Bureau of Statistics. The data span through ten years record of GDP and oil revenue, 2000-2009. The tool of analysis used was simple linear regression model with the aid of Statistical Packages for Social Sciences (SPSS). The study found that petroleum has a direct and positive significant relationship with the economy

3. Research Method

Theoretical framework: Solow Growth Model

The standard exposition of the Solow neoclassical growth model used an aggregate production function by Cobb-Douglas which was expressed as:

$$Y = K^{\alpha}(AL)^{1-\alpha} \qquad (3.1)$$

Where Y represented gross domestic product, K represented stock of capital (which may include human capital as well as physical capital), L represented labour and A represented the productivity of labour, which grow at an exogenous rate.

3.1. Model Specification

The adopted model for this study were Baghebo and Atima (2003) and Baghebo and Atima (2013) which was stated to examine the relationship between economic growth, oil revenue, foreign domestic investment (domestic investment and external debt) and corruption index. However, for the purpose of this study the adopted model was modified and specified to capture the objective of this study. Thus, the incorporation of exchange rate and inflation rate as a determinant of economic growth into the econometric function expressed in (3.2) below:

RGDP = F (OREV, PPT, EXCR, INF) (3.2)

Equation (i) can be transformed and expressed in log-linear form stated in (3.3) as:

$$\text{LOGRGDP}_t = \beta_0 + \beta_1\text{LOGOREV}_t + \beta_2\text{LOGPPT}_t + \beta_3\text{EXCR}_t + \beta_4\text{INF}_t + u_t \quad (3.3)$$

Where:

RGDP = Real economic growth

OREV = Oil revenue

PPT = Petroleum profit Tax

EXCR = Exchange rate

INF = Inflation rate

u_t = stochastic error term

t = subscript t

While, $\beta_0, \beta_1, \beta_2, \beta_3$ *and* β_4 are parameters to be estimated in the course of this study.

3.2. A Priori Expectations

The *a priori* expectations are as follows:

$\beta_1 > 0$, $\beta_2 > 0$, $\beta_3 > 0$ and $\beta_4 < 0$

3.3. Sources of Data and Estimation Technique

The secondary data used for this study were extracted from the Central Bank of Nigeria Statistical Bulletin and World Bank development indicators. It was annual data that covered the periods 1981-2018. The data were collected on the identified variables and were analysed using ARDL techniques. The ARDL was adopted because there was no imposition of restrictive assumption on the variables to be integrated of the same order. In other words, the ARDL approach can be applied regardless of whether the underlying regressors were integrated of order I(1), order zero I(0) or fractionally integrated. Also, ARDL technique generally provided unbiased estimates of the long-run model and valid t-statistics even when some of the regressors were endogenous.

Unit Root Test

The specification of ADF test is given as follows;

$$Y_t = \alpha + \beta_t + \rho Y_{t-1} + \Sigma\delta\Delta Y_{t-1} + u_t \quad (3.4)$$

Where, Y_t was the level of the variable under consideration, t denotes time trend and u_t was error term assumed to be normally and randomly distributed with zero mean and constant variance. The optimal lag length was chosen on the basis of Akaike Information Criterion (AIC) and Swartz Criterion. Before using the Autoregressive Distributed lag (ARDL) approach model, we tested the time series properties of the data to check whether the univariate series were either I(0) but not I(2), which was a precondition before one can employ the ARDL approach

Auto Regressive Distributed Lag (ARDL) technique

An ARDL representation of the model was represented as follows:

$$\Delta LN\mathrm{RGDP}_t = \beta_0 + \sum_{i=1}^{n}\beta_1\Delta LN\mathrm{OREV}_{t-i} + \sum_{i=1}^{n}\beta_2\Delta LN\mathrm{PPT}_{t-i} + \sum_{i=1}^{n}\beta_3\Delta LN\mathrm{EXCR}_{t-i} + \sum_{i=1}^{n}\beta_4\Delta LN\mathrm{INF}_{t-i} + \beta_5 LN\mathrm{RGDP}_{t-1} + \beta_6 LN\mathrm{OREV}_{t-1} + \beta_7 LN\mathrm{PPT}_{t-1} + \beta_8 LN\mathrm{EXCR}_{t-1} + \beta_9\mathrm{INF}_{t-1}$$

This technique provided an analysis that help in achieving the long run relationship and effect of this study.

The Error Correction Model

The purpose of the error correction model was to indicate the speed of adjustment from the short-run equilibrium to the long-run equilibrium state. However, the greater the co-efficient of the parameter the higher the speed of adjustment of the model from the short-run to the long-run equilibrium. The individual influence of the co integrated variables can only be separated with an error correction mechanism through an error correction model

$$Y_t = \alpha + \beta_t + \rho Y_{t-1} + \Sigma\delta\Delta Y_{t-1} + u_t$$

$$\Delta Y_t = \beta_0 + \beta_1 \Delta X_t - \lambda u_{t-1} + Y_t \quad (3.4)$$

4. Result and Discussion

Table 4.1. Unit Root Test using Augmented Dickey-Fuller

Variable	Level ADF Test Statistic	MacKinnon Critical Value at Level at 5% level	First Difference ADF Test Statistic	MacKinnon Critical Value at First Difference at 5% level	Decision
EXCR	1.728342	-2.943427	-4.216834**	-2.945842	I(1)
INF	-3.023581**	-2.943427	-5.219148	-2.945842	I(0)
RGDP	-0.027817	-2.943427	-3.395063**	-2.945842	I(1)
GPPT	-1.103391	-2.943427	-5.920247**	-2.945842	I(1)
OREV	-1.367982	-2.943427	-6.068961**	-2.945842	I(1)

*****Significant at 5% level.

Source: Data Analysis, 2021

The result of the ADF stationary test for the variables under consideration was presented in Table 4.1 and it was revealed that exchange rate (EXCR), real gross domestic product (RGDP), petroleum profit tax (PPT) and oil revenue (OREV) were stationary at first difference (I(1)). This was revealed with ADF statistics of 4.2168, 3.3951, 5.9202 and 6.0690 respectively which were greater than the ADF critical value of 2.9458 in absolute term at 5 percent level of significance. However, it was also discovered that the inflation rate (INF) was stationary at level (I(0)). This was evidence as the ADF statistic of 3.0236 which greater than the ADF critical value at 5 percent level of significance. Thus, it can be emphasized that exchange rate (EXCR), inflation rate (INF), real gross domestic product (RGDP), petroleum profit tax (PPT) and oil revenue (OREV) had a short run equilibrium relationship.

Table 4.2. The ARDL Model for Examining the Impact of Oil Revenue on Economic growth

Dependent Variable: RGDP			
Method: ARDL			
Variable	Coefficient	t-Statistic	Prob.
Short Run Form			
C	0.010813	0.984604	0.3351
D(RGDP(-1))	0.747801	4.747771**	0.0001
D(OREV)	0.041252	1.707711*	0.1012
D(PPT)	-0.048429	-2.263778**	0.0333
D(PPT(-1))	0.015956	1.523143	0.1414
D(INF)	-0.000934	-2.761642**	0.0111
D(INF(-1))	7.74E-05	0.238552	0.8136
D(INF(-2))	0.000330	1.149029	0.2624
D(INF(-3))	-0.001150	-3.506275**	0.0019
D(EXCR)	-0.000704	-2.542567**	0.0182
D(EXCR(-1))	0.000546	1.813680*	0.0828
Long Run Form			
C	0.042877	1.668105	0.1089
OREV	0.163571	0.982566	0.3360
PPT	-0.128758	-0.918146	0.3681
INF	-0.006650	-1.096749	0.2841
EXCR	-0.000627	-0.503041	0.6197
R-squared	0.655237	F-statistic	4.371242
Adjusted R-squared	0.505339	Prob(F-Stat.)	
Durbin-Watson Stat:	1.792750		0.001664
Breusch-Godfrey Serial Correlation LM:	0.224695	Prob(F-Stat.)	0.8781

******Significant at 5% level. *****Significant at 10% level

Source: Data Analysis, 2021

The result of ARDL for examining both the short and long run relationship between the economic growth and the oil revenue was presented in Table 4.2. The result showed that a linear relationship exists among the economic growth (RGDP), oil revenue (OREV), petroleum profit tax (PPT), inflation rate (INF) and exchange rate (EXCR) both in the short and long run during the period under investigation. Specifically, the result showed that the previous values of the economic growth (RGDP (-1)) and oil revenue were directly related with the economic growth (RGDP) in Nigeria. The result further showed that one percent increase in the previous value of economic growth (RGDP (-1)) and oil revenue (OREV) led to 75 and 4 percent increase in the economic growth (RGDP) in the short run while oil revenue (OREV) led to 16 percent increase in economic growth in the long run as revealed by this study.

It was also revealed that the petroleum profit tax (PPT), inflation rate (INF) and exchange rate (EXCR) were inversely related with the economic growth (RGDP). Thus, it was indicated that one percent increase in PPT, INF and EXCR led to a decline in economic growth (RGDP) to the turn of 5, 0.09 and 0.07 percent respectively in the short run. However, in the long run it was indicated that one percent increase in PPT, INF and EXCR led to a decline in economic growth (RGDP) to the turn of 13, 0.6 and 0.06 percent respectively. The test for the statistical significance of the parameters revealed that the previous value of economic growth (RGDP (-1)), petroleum profit tax (PPT) and inflation rate (INF) were significance at 5 percent level while exchange rate (EXCR) was significance at 10 percent level. This result implies that the identified economic variables in this study influenced the economic growth in Nigeria particularly in the short run.

The adjusted R- square value of 0.505 revealed that 51 percent variations in the economic growth (RGDP) in Nigeria can be explained by the changes in oil revenue (OREV), petroleum profit tax (PPT), inflation rate (INF) and exchange rate (EXCR) both in the short and long run during the period under consideration. The probability of F-statistic value of 0.0017 < 0.05 revealed that fitted ARDL model was statistical significance and as such reliable and appropriate for examining the impact of oil revenue and other identified economic variables on economic growth in Nigeria during the period under study. Hence, the significance of the ARDL model for this study led to the bound test for the long run relationship or cointegration among the oil revenue (OREV), petroleum profit tax (PPT), inflation rate (INF) and exchange rate (EXCR) and economic growth in Nigeria. This was presented in the table 4.3.

Table 4.3. ARDL Bound Test for Cointegration

Test Statistic	Value	K
F-statistic	6.207993	4
Panel B	Mackinnon (1996) critical values	
Critical Value Bounds	I(0)	I(1)
(at 5% Significance Level)	2.56	3.49

Source: Data Analysis, 2021

The result of the bound test for co-integration, alongside with the critical values were presented in table 4.3. The results of the bound test showed that the F-statistic value of 6.208 which was greater that the lower I (0) and upper I(1) bounds critical values of 2.56 and 3.49 at 5% significance level respectively. Thus, the null hypothesis of no co-integration was rejected, asserting the presence of a long-run relationship between economic growth and the explanatory variables.

5. Implication of the Findings and Conclusion

The study empirically examined the impact of oil revenue on economic growth in Nigeria between the periods of 1981-2018. The result revealed that exchange rate (EXCR), real gross domestic product (RGDP), petroleum profit tax (PPT) and oil revenue (OREV) were stationary at first difference (I (1)). It was also discovered that the inflation rate (INF) was stationary at level (I(0)) and as such confirmed the result obtained Akinlo (2012) that established a short run equilibrium relationship between the oil and the economic growth. The result showed that the previous values of the economic growth (RGDP (-1)) and oil revenue were directly related with the economic growth (RGDP) in Nigeria. The result further showed that increase in the previous value of economic growth (RGDP (-1)) led to increase in the economic growth (RGDP) in the short run while, oil revenue (OREV) led to increase in economic growth in both the short and long run hence affirmed the position of Odularu (2008) in which it was established that crude oil consumption and export have contributed to the improvement of the Nigerian economy. In contrary to Usman, Madu and Abdullahi (2015) that found a direct relationship between petroleum and the economy growth, it was revealed that the petroleum profit tax (PPT), inflation rate (INF) and exchange rate (EXCR) were inversely related with the economic growth (RGDP). Thus, it was indicated that an increase in PPT, INF and EXCR led to a decline in economic growth (RGDP) in both the short and long run. In consonant with Ibeh (2013), this study established the statistical insignificance of oil revenue on economic growth performance during the period under investigation. However, petroleum profit tax (PPT), inflation rate (INF) and exchange rate (EXCR) were found to be statistically significance and as such influenced the economic growth in Nigeria particularly in the short run. The fitted ARDL model was statistical significance and as such reliable and appropriate for examining the impact of oil revenue and other identified economic variables on economic growth in Nigeria during the period under study. Hence, the needs for government to formulate appropriate policy that can engender better and judicious use oil revenue to enhance the growth of the Nigerian economy. Also, loopholes to oil revenue generation should be blocked to ensure that funds are properly channel for the growth of the economy. Also, government should take a bold step towards the diversification the economy from oil in order to encourage the growth of the economy from other sectors of the economy.

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