

MACROECONOMIC IMPACT OF OIL PRICE SHOCKS ON OIL RICH ECONOMIES: EVIDENCE FROM NIGERIA USING A STRUCTURAL VAR APPROACH

JEL: C22, E37, E47

Oil price shocks, Macroeconomic variables, Structural VAR Analysis

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ABSTRACT

Global commodity price dynamics has exhibited high volatility in recent years. In particular, crude oil price developments have been substantially volatile in the past few decades, being a source of concern for policy makers. The distorting effects of this on oil rich economies are also significant depending on the level their vulnerability to external shocks. This paper focuses on the Nigerian economy, adopting a statistical Structural VAR analysis using quarterly data 1981Q1 – 2010Q4. The main novelty entails the analysis of a broad array of macroeconomic variables including output, inflation, exchange rate and money supply and some administered prices. The results show that oil prices have considerable impact on output, inflation, money supply and exchange rate. In addition, we find subsequent spillovers on administered prices. The implication is that key macroeconomic variables in Nigeria are significantly influenced by external shocks given the oil dependent structure of the economy. Diversification of the Nigerian economy and sterilization of oil windfalls should mitigate the impact of the exogenous shocks on the economy.