Effect Of Oil Revenue On Fiscal Performance In Nigeria

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Abstract
This study investigates the effect of oil revenue on fiscal performance in Nigeria from the first quarter of 2010 to the second quarter of 2022. An ex post facto research design was adopted for the study. Quarterly time series data for royalties on oil, crude oil revenue, and fiscal performance were collected from the Central Bank of Nigeria statistical bulletin. Philip Perron test was used to test the stationarity of the data and Bounds test was utilized to determine the presence of a long-run relationship. The Dynamic Ordinary Least Squares technique was used to test the effect of oil revenue on fiscal performance in Nigeria. The findings showed that royalties on oil and crude oil revenue have a significant effect on fiscal performance in Nigeria. The study recommends that the Nigerian government should reduce its dependence on royalty of oil by diversifying the sources of income. This could involve investing in other sectors such as agriculture, manufacturing, services, and technology. By doing so, Nigeria can build a more resilient and stable fiscal structure that is less susceptible to fluctuations in oil prices. Also, the government of Nigeria should consider setting up a stabilization fund that accumulates revenues during periods of high crude oil prices and can be drawn upon during times of low prices. This fund can act as a financial cushion, helping to maintain government expenditures and prevent abrupt cuts in public services during economic downturns.
Keywords: *Oil Revenue, Royalties on Oil, Crude Oil Revenue, Fiscal Performance.*

I.   Introduction
The adoption of fiscal rules as a significant fiscal framework reform began spreading in many industrial and emerging/developing countries in the 1990s. Fiscal rules are guidelines established to achieve various objectives. These objectives encompass several key aspects which include: Enhancing Fiscal Policy Resilience, Strengthening Fiscal performance, Helping stabilize the economy and Promoting Fairness Across Generations (IMF, 2013). Out of the four policy objectives mentioned, this study will concentrate on fiscal performance because it is vital for achieving economic stability, managing government debt, allocating resources efficiently, maintaining investor confidence, managing economic cycles, influencing inflation and interest rates.

Fiscal performance refers to how effectively a government manages its finances and budgetary matters. It involves evaluating various aspects of government revenue generation, spending, and debt management to determine the overall health and effectiveness of a country's fiscal policies. Although various indicators can be used to measure fiscal performance, this study will use the public debt-to-GDP ratio, as suggested by Andrle et al. (2015).

The debt-to-GDP ratio stands out as a superior measure for evaluating a nation's fiscal health when compared to the deficit balance and structural balance. This is primarily due to its capacity to provide a more comprehensive assessment of fiscal well-being. Unlike the deficit balance, which primarily focuses on short-term budget gaps, the debt-to-GDP ratio takes a long-term perspective by considering both current deficits and the accumulation of past fiscal imbalances. Moreover, it factors in the size of the economy about its debt load, offering crucial economic context that the other metrics lack. This enables straightforward comparisons between countries and makes it a more suitable gauge for policy decisions. Additionally, the debt-to-GDP ratio effectively highlights the impact of previous fiscal decisions on a nation's overall financial stability, making it a valuable tool for assessing fiscal health and its potential repercussions on the economy (Nicholai, at al, 2022; Schmidt-Hebbel & Soto 2018).

One major factor that may undermine fiscal performance is natural resources. It can significantly hinder the development of many resource-rich countries especially when price deflation and volatility experienced in the global primary commodities market is considered. This volatility is particularly obvious in the case of oil prices, which have exhibited extreme fluctuations, especially since the 1970s (Mohammed, 2011). Consequently, these economies, endowed with valuable resources, find themselves vulnerable to severe economic shocks. These

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shocks, at times, necessitate costly economic adjustments that could strain their financial resources. Moreover, it is often alleged that these economic adjustments are often accompanied by fiscal indiscipline and undermine prudent fiscal management and judicious investments (Manasseh et al, 2019). This could result in persistent deviation from planned fiscal programs,

In Nigeria, government revenue has traditionally been dominated by oil revenue. In 2020, oil revenue accounted for 85% of total government revenue (National Bureau of Statistics, 2022). This high level of reliance on oil revenue has made the Nigerian government vulnerable to shocks in the oil price. For example, when the oil price crashed in 2014, the Nigerian government experienced a sharp decline in revenue, which led to a budget deficit and a debt crisis.

Nigeria has long been dependent on oil revenue as a major source of government income. The country is blessed with substantial oil reserves, and the oil sector has traditionally contributed to government revenue. However, this heavy reliance on a single revenue source has exposed Nigeria to significant fiscal risks. Fluctuations in global oil prices, production disruptions, and political instability in oil-producing regions have all contributed to the volatility and unpredictability of oil revenue.

There are several studies on oil revenue and economic growth, such as Kingsley and Akinlosotu (2018); Gideon et al. (2022); Olayungbo (2019); Ezeigbo (2022). However, when it comes to oil revenue and fiscal performance there is a dearth of knowledge, therefore making this study, the effect of oil revenue on fiscal performance in Nigeria a unique one. This study used the Dynamic Ordinary Least Square regression approach which will eliminate the issue of serial correlation and endogeneity which is prevalent in time series data while looking at both the long run and short run effect. This research thus filled the gaps in the literature by examining the effect of the oil revenue on fiscal performance in Nigeria from 2010Q1 to 2022Q2. The following objectives were considered:

i. To examine the effect of royalties on oil on fiscal performance in Nigeria
ii. To assess the effect of crude oil revenue on fiscal performance in Nigeria

The study hypothesized that:
H_{01}: Royalties on oil have no significant effect on fiscal performance in Nigeria.
H_{02}: Crude oil revenue has no significant effect on fiscal performance in Nigeria.

II. Literature Review
Concept of Oil Revenue

Oil revenue refers to the income generated by a country or government from the production, sale, and export of oil. It is derived from the sale of crude oil, refined petroleum products, and related activities in the oil industry. According to Friedman (2005), oil revenue refers to the money a country receives from the sale of oil, which can come from sources like royalties, taxes, and direct ownership. It serves as a significant income source for many countries, with examples such as Saudi Arabia, Norway and Nigeria relying heavily on oil revenue for government budgets.

According to Baumeister and Kilian (2016), oil price fluctuations are an unanticipated component of a substantial change in the price of oil, defined as the difference between the expected and realized oil prices. In the simplest terms, a change in oil price could boost economic growth in that it could make the price of crude oil in the international market appreciate at the expense of domestic oil prices. However, the general impact of crude oil price fluctuations on enterprises and economic growth is mainly determined by how the government manages its previous and current revenue (Ighosewe, Akan, & Agbogun, 2021). The Nigerian economy has been heavily reliant on the production and export of crude oil as its main source of foreign exchange earnings and government revenue. Thus, changes in crude oil prices and production have a significant impact on the performance of the Nigerian Gross Domestic Product (Igbodika et al., 2016).

Uremadu et al (2020), posited that oil revenues are revenues from crude oil and gas exports, receipts from petroleum profit tax and royalties. This study concentrates on the sales of crude oil and royalties on oil. Nigeria is a major oil producer; many indigenous and foreign firms engage in oil business in the country. Profits made by these firms are subjected to tax which constitutes a major source of revenue to the government of Nigeria since the oil boom days of 1970s and early 1980s.

Fiscal Performance

Fiscal performance is a measure of how well a government can use its assets or liability to generate more revenues. Fiscal performance refers to the effectiveness of a government's fiscal policies in achieving their intended goals. Fiscal performance is the use of government spending to influence the economy. Fiscal institutions can strengthen fiscal performance by providing independent analysis and advice on fiscal policy. Budgeting for fiscal space is a concept that suggests that some countries may have more fiscal space than others, and that fiscal space can be created by improving government performance (Kamasa et al, 2022).

According to Ayogueze and Anidiobu (2017) fiscal performance is a summary of intended expenditures along with proposals on how to meet them. It provides a plan about the earning and spending of a country for a period of time. It can be balanced, surplus or deficit. In circumstances in which inflows equals outflows, it is said to be balanced. This study emphasize the importance of a balanced budget and the consequences of budget surpluses and deficits. For a sustainable economic growth of a country, balanced budget is decisive. When a budget surplus is witnessed, revenue becomes more than current expenditures and results in an excess of funds that can be appropriated as desired. However, in circumstances in which a budget deficit is identified, current expenses exceed the amount of income being received through standard operations. In order to correct a budget deficit, a nation may need to cut back on certain expenditures or increase revenue-generating activities, or employ a combination of the two (Peterson, 2007).

Various indicators can be used to measure fiscal performance. The budget deficit, which represents the difference between government spending and revenue, indicates whether a government is spending more than it earns. The debt-to-GDP ratio reflects the proportion of government debt to the size of the economy, influencing a government's ability to finance its spending. The growth rate of government spending examines the pace at which expenditures are increasing and its potential impact on private investment and inflation.

Strong fiscal performance offers several benefits. It promotes economic stability by averting excessive borrowing and debt, resulting in reduced inflation and interest rates that facilitate business investment and job creation. Financial security is enhanced by maintaining a low debt-to-GDP ratio and avoiding excessive government borrowing. Social welfare is improved through the provision of essential public services such as education and healthcare, which reduces poverty and inequality while enhancing the overall quality of life.

Oil Revenue and Fiscal Performance

Akinleye et al (2021) examined the impact of oil revenue on economic growth in Nigeria from 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. Because the data used in this study are integrated of the same order Dynamic Ordinary least squares was used in the analysis to ascertain if the findings would be the same as this study.

Akinlolu and Nejo (2020) examined the effect of oil revenue and Nigerian economic growth from 1981-2018. For this purpose, this research was conducted with a time series data employed from CBN and NBS ranging from 1981-2018. The study used the Ordinary Least Squares regression and Granger causality to test the effect and causal relationship between the variables modeled. The result discovered that there is a negative but statistically significant relationship between oil revenue and gross domestic product while other variables showed no significant probability values. The study concluded that oil revenue is a resource curse for the country judging from the dependence of the country on oil revenue and that it a negative effect which hinders other sectors from growing and help curb the rising economic volatility in the country.

Ologunde, et al (2020) investigated the relationship between sustainable development and crude oil revenue (COR) in selected oil-producing African countries from 1992–2017 using the Pooled Mean Group (PMG) estimators on panel autoregressive distributed lag model (ARDL). Sustainable development was measured with the Human Development Index (HDI). This study was significant for Africa to break away from fiscal over-dependence on natural resource revenue, especially crude oil due to its high volatility and to correct porous institutional outlook. The aprior expectation is that crude oil revenue will be so unstable that many countries will record negative positions and might not be able to meet fiscal demands in the long run if the situation is protracted. The results of study revealed that there was no long-term relationship between COR and sustainable development in selected oil-producing African countries for the period studied. In other words, the results suggest that any changes to COR have a potential negative effect on sustainable development in the selected countries. This implies over-reliance on COR will impact the economies negatively in the long run. This finding, therefore, requires an immediate fiscal intervention on spending on sustainable development drivers such as education, health, agriculture cum adoption diversification policy, and veritable supply-side policies that could avert the possibility of these negative effects and to correct traits of ineffective public institution.

Maddah and Jeyhoon-Tabar (2018) examined the effect of petroleum revenue on Iran's public expenditures. In this study, seasonal data for the period of 1994–2015 were used to test and analyze the fiscal illusion in Iran's economy by applying autoregressive distributed lags model. Findings, obtained from the model estimation, indicate that the fiscal illusion in Iran's economy can be explained from the variables of oil revenue and government debt in short-term and long-term, and indirect tax elasticity in short-term. Since the government uses oil revenue to finance its debt and budget deficit, the results may lead to fiscal illusion. In order to prevent fiscal illusion, using these sources should be gradually reduced as much as possible. As tax revenue itself generally does not result in fiscal illusion (based on the findings), the government should specify transparent fiscal rules by using tax revenues rather than oil revenues in order to prevent both the increasing government expenditures and fiscal fluctuations. According to the results, government should use more direct tax revenue. As the government's direct tax revenue, unlike other sources of revenue, does not create fiscal illusions, it does not result in excessive demand by citizens for public expenditures.

Theoretical Framework
Rentier State Theory

The rentier state theory was first postulated by British political scientist and economist, Hossein Mahdavy. He introduced this theory in a 1970 article titled "The Pattern and Problems of Economic Development in Rentier States," published in the journal "International Journal of Middle East Studies." Mahdavy's work laid the foundation for understanding the dynamics of states that heavily rely on external rents, particularly oil revenues, and how this reliance can shape their economic and political structures (Mahdavy, 1970).. Since then, scholars have expanded on and refined the rentier state theory to analyze the complexities of resource-dependent economies and their impact on governance and development.

The rentier state theory postulates a unique economic and political dynamic wherein a government derives a substantial portion of its revenue from external rents, typically in the form of oil or other natural resource exports, rather than from domestic taxation. This reliance on external income can have profound implications for the state's behaviour and governance. The theory contends that when a government becomes a "rentier," it may experience weakened accountability to its citizens since it does not rely as heavily on taxes (Meliha, 2014).. This lack of taxation-based accountability can contribute to issues such as corruption and inefficient governance. Moreover, a rentier state Moreover, a rentier state may not feel the same pressure to build strong domestic institutions or foster a diversified economy, potentially leading to long-term economic challenges. The concept of a rentier state thus underscores the complex relationship between external revenue, governance, and economic development.

III.   Methodology

The research design adopted for this study is ex post facto design. This study uses quarterly time series data covering the period 2010Q1 to 2022Q2. The variables of the study are crude oil revenue, royalties on oil and fiscal performance. Data for the study was obtained from the Central Bank of Nigeria Statistical Bulletin 2022. The scope of the study stopped in 2022Q2 because of the data in the CBN statistical bulletin for crude oil revenue stopped in 2022Q2 this is because of the privatization of NNPC to NNPCL. Descriptive statistics were used to explain the data. A stationarity test was conducted to test for the presence of unit roots in the time series data. In addition, the co-integration test was conducted to investigate the possible correlation among the variables of this study. The data obtained was also analyzed using Dynamic Ordinary Least Square regression through Eviews 10 Statistical Package. The analysis process of this study follows the following steps:

The Phillips-Perron (PP) unit root test was employed to determine the order of integration of the variables to establish the stationarity level of the variables. The PP unit root test is conventionally said to have greater unit root detection ability when compared with the ADF unit root test. The PP test is thus preferred to the Augmented Dickey-Fuller (ADF) because it deals with a potential correlated error by employing a correction factor that estimates the long-run variance of the error process.

$\Delta y_{t-1} = \alpha_0 + \lambda y_{t-1} + \dots + \lambda y_{t-p} + \varepsilon_t$

Cointegration

The cointegration test determines if the integrated variables are cointegrated. Cointegration regressions measure the long-term relationship between the dependent and the independent variables. The bound test cointegration approach was preferred in the study as it allows the researcher to test for cointegration using variables that are stationary at different orders. It also helps to estimate a dynamic error correction specification, which provides estimates of both the short and the long-run dynamics.

Error Correction Model

Granger (1987) showed that if two variables are cointegrated, then they have an error correction representation. The Error Correction Model (ECM) provides information about the long-run, and short-run relationship as well as the speed of adjustment between the variables in incorporating the estimated equation, the error correction term (ECT).

$\Delta Y_t = a_0 + b_1 \Delta X_t - \lambda \hat{u}_{t-1} + Y_t$

The model is specified as follows:

FP = f (LOGROO, LOGCOR) …………………………………………………... (1)

The econometric form of equation (1) is represented as:

$FP_t = \beta_0 + \beta_1 LOGROO_t + \beta_2 LOGCOR_t + \mu_t$ …………………. ……………....…. (2)

Where: FP = Fiscal Performance; LOGROO = Logarithm of Royalties on Oil; LOGCOR = Logarithm of Crude Oil Revenue; β_0 = Intercept or Constant; $\beta_1 - \beta_2$ = Slope of the regression line concerning the independent variables; μ = Error Term. The Cointegration model of the study is represented by:

$$\Delta FP_t = \mu + \sum_{i=1}^{n-1} \Gamma i \Delta FP_{t-i} + \sum_{i=0}^{m-1} \gamma_1 \Delta LOGROO_{t-i} + \gamma_2 \Delta LOGCOR_{t-i} + ECM_{t-1} + \varepsilon_t \dots\dots\dots\dots(3)$$

Where: FP = Fiscal Performance; LOGROO = Logarithm of Royalties on Oil; LOGCOR = Logarithm of Crude Oil Revenue; and ECM = Error-correction coefficient; ε = Error term; Δ = First difference operator; μ = Intercept or Constant; $t-i$ = Time lagged; $\gamma_1 - \gamma_2$ = Coefficient of independent variables.

IV. Results And Discussion
Table 1: Descriptive Statistics

	FP	LOGROO	LOGCOR
Mean	0.154825	11.15803	11.96412
Maximum	0.369200	12.15321	13.11819
Minimum	0.046643	9.851299	10.57500
Std. Dev.	0.107689	0.521688	0.567607
Observations	50	50	50

Source: *Eview Version 10 Output, 2023*

The table above reveals that fiscal performance has a mean value of 0.154825 for the period under consideration, while the deviation from the mean (standard deviation) was 0.107689. This means that fiscal performance is normally distributed because the standard deviation value is lower than the mean value. The maximum fiscal performance within the period of this study was 0.369200. This implies that the highest fiscal performance is not more than 37% within the 50 quarters. The table shows the minimum percentage to be 0.05.

Table 1 also shows that the logarithm of royalties on oil had a mean value of 11.15803, while the deviation from the mean was 0.521688. This indicates that the logarithm of royalties on oil is normally distributed. The maximum value within the period under consideration was 12.15321, implying that the highest level of logarithm of royalties on oil was not more than 12 in percentage. While the minimum value was 10% indicating the lowest level of logarithm of royalties on oil.

Finally, the logarithm of crude oil revenue had a mean value of 11.96412, while the deviation from the mean was 0.567607. This indicates that the logarithm of crude oil revenue is normally distributed. The maximum value within the period under consideration was 13.11819, implying that the highest level of logarithm of crude oil revenue was not more than 13% and the minimum value of 11% indicates the lowest level of logarithm of crude oil revenue.

Table 2: Stationarity Check

Variables	Adj. T-Statistic	Prob. Values	Order of Integration
FP	-6.423003	0.0000	*I(0)*
LOGROO	-3.855992	0.0217	*I(1)*
LOGCOR	-4.323462	0.0000	*I(0)*

Source: *Researcher's Computation 2023.*

To examine the existence of stochastic non-stationarity in the series, the research establishes the order of integration of individual time series through the unit root tests. The test of the stationarity of the variables adopted was the Phillips-Perron (PP) test. The variables tested are FP, LOGROO and LOGCOR with results presented in Table 2 above.

From Table 2, it can be seen that LOGROO was found to be stationary at first difference, that is, at order I(1). While FP and LOGCOR were found to be stationary at level, that is, at order I(0). The PP test statistics are greater than their respective tabulated values and their p-values are all below the 0.05 significant level for this study. Since the variables were found stationary at level I(0) and first order I(1), the Bound test approach to co-integration was applied to determine the long-run relationship among the variables.

Table 3: Bound Test

F-Bounds Test		Null Hypothesis: No levels relationship		
Test Statistic	Value	Signif.	I(0)	I(1)
			Asymptotic: n=1000	
F-statistic	5.214473	10%	2.63	3.35
k	2	5%	3.1	3.87
		2.5%	3.55	4.38
		1%	4.13	5

Source: Extract of Eview 10 output

The decision criteria are: if the value of the F-statistics is lower than the I(0) bound we cannot reject the null hypothesis of no cointegration, but if the F-statistics is higher than the values of the I(1) bound we reject the null hypothesis. In this study, we obtained F-statistics of 5.214473 which is higher than the I(1) bound values of 3.35 (10%), 3.87 (5%), 4.38 (2.5%) and 5 (1%) in this case we reject the null hypothesis that there is no cointegration. Therefore, this means that there is long-run relationship between fiscal performance, the logarithm of royalties on oil and the logarithm of crude oil revenue.

Table 4: Dynamic OLS Regression Result

Variable	Coefficient	Std. Error	t-Statistic	Prob.
LOGROO	0.075401	0.030193	2.497280	0.0170
LOGCOR	-0.190086	0.028875	-6.583047	0.0000
C	1.589481	0.457516	3.474152	0.0013
R-squared	0.773960	Mean dependent var		0.154708
Adjusted R-squared	0.726372	S.D. dependent var		0.104306
S.E. of regression	0.054562	Sum squared resid		0.113127
Long-run variance	0.007446			

Source: Eview 10 output

The regression result shows that the logarithm of royalties on oil has a significant effect on fiscal performance because the p-value was 0.0170 which was lower than the 5% significant level, indicating that an increase in royalties on oil will change fiscal performance to the extent of 8%. Also, the logarithm of crude oil revenue has a significant effect on fiscal performance because the p-value was 0.0000 which is lower than the 5% significant level, indicating that an increase in crude oil revenue will not decrease fiscal performance to the extent of 19%.

The coefficient of determination (R-square) indicates that the model fits in prediction. It showed that about 77 percent of changes in fiscal performance were collectively due to royalties on oil and crude oil revenue, while 23 percent of unaccounted variations were captured by the error term.

**Table 5: Post Estimation Test**

Description	Probability values
Normality Test: Jarque-Bera P-value:	1.948366 0.377501
Serial Correlation F-statistics P-value	1.048989 0.3632
Heteroskadasticity Test F-statistics P-value	0.279299 0.5999

Source: *Researcher's computation*, 2023

Table 5 above indicates that the data is skewed, denoting that the data is normal. This is corroborated by the Jarque-Berra Statistic of 1.948366 and its corresponding P-value of 0.377501 which is greater than the p-value of 0.05.

The Breusch-Godfrey Serial Correlation LM Test indicates that there is no autocorrelation. This is given by the F-statistic of 1.048989 and its corresponding P-value of 0.3632. The ARCH Test of Heteroskedasticity given the F-statistics 0.279299 and its corresponding P-value of 0.5999 indicates that there is no problem with heteroskedasticity.

Table 6: CUSUM TEST
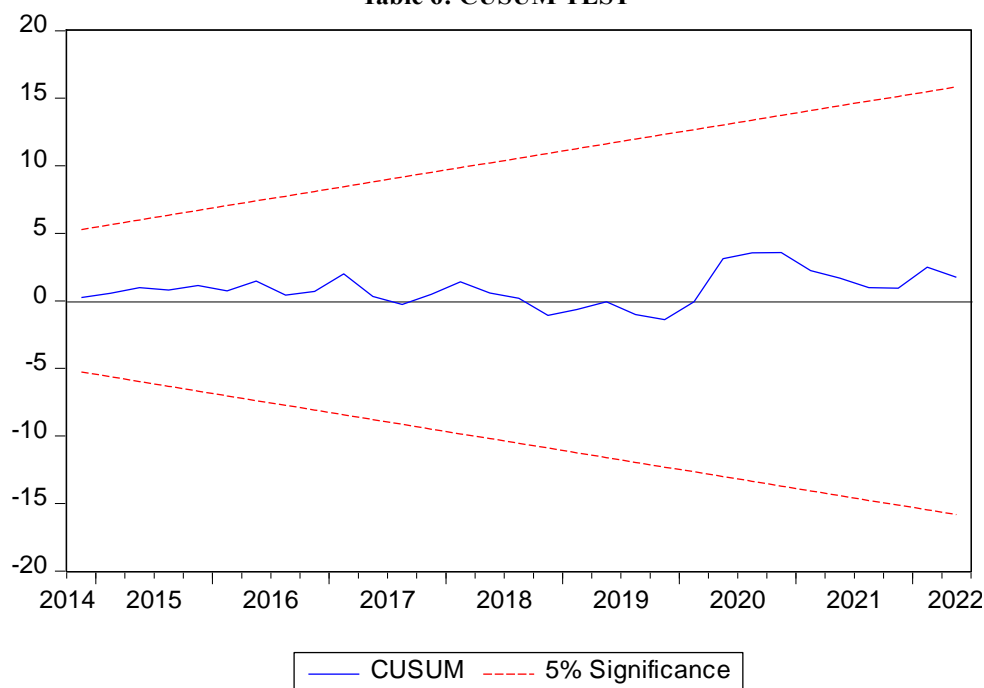
Source: *Eview Version 10 Output, 2023*

The stability of the model was checked using the CUSUM test and it shows that the model is stable as it is within the 5% boundary.

Test of Hypotheses

H_{01}: Royalties on oil have no significant effect on fiscal performance in Nigeria.

From Table 4, where the effect of royalties on oil was tested on fiscal performance, it was shown that royalties on oil have a significant effect on fiscal performance because both p-values and t-statistics show that royalties on oil have a significant effect on fiscal performance in Nigeria. Therefore, the study rejects the null hypothesis (H_{01}).

H_{02}: Crude oil revenue has no significant effect on fiscal performance in Nigeria.

From Table 4, where the effect of crude oil revenue was tested on fiscal performance, it was shown that crude oil revenue has a significant effect on fiscal performance because both p-values and t-statistics show that crude oil revenue has a significant effect on fiscal performance in Nigeria. Therefore, the study rejects the null hypothesis (H_{02}).

V.   Conclusion And Recommendations

This study examined the effect of oil revenue on fiscal performance in Nigeria for the period 2010Q1 to 202Q2. Based on the findings of the study, it can be concluded that there is the existence of a long-run equilibrium relationship between royalties on oil, crude oil revenue, and fiscal performance in Nigeria. The study concludes that royalties on oil have a significant effect on fiscal performance. This means that royalties on oil in Nigeria help to appreciate the debt-to-GDP ratio which is the proxy for fiscal performance. The study also found that crude oil revenue has a significant effect on fiscal performance. This implies that the increase or decrease in crude oil revenue will affect the performance of the fiscal policies.

Based on the findings of this study, it was recommended that the Nigerian government should reduce its dependence on royalty of oil by diversifying the sources of income. This could involve investing in other sectors such as agriculture, manufacturing, services, and technology. By doing so, Nigeria can build a more resilient and stable fiscal structure that is less susceptible to fluctuations in oil prices. Also, this study advocates for the implementation of fiscal discipline measures, including the establishment and adherence to fiscal rules and

guidelines. This can help prevent excessive spending during periods of high oil prices and ensure that revenues are saved or used wisely for long-term development projects.

The government of Nigeria should consider setting up a stabilization fund that accumulates revenues during periods of high crude oil prices and can be drawn upon during times of low prices. This fund can act as a financial cushion, helping to maintain government expenditures and prevent abrupt cuts in public services during economic downturns. Also, allocate a portion of crude oil revenues to strategic infrastructure projects that have the potential to stimulate economic growth and development. Investments in sectors like transportation, energy, and telecommunications can have long-term positive effects on the economy. Establishing a contingency reserve within the budget to address unforeseen events or emergencies. This reserve can be funded from surplus oil revenues during favourable periods and can be used to mitigate the impact of external shocks on the fiscal performance of the country.

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