

EFFECT OF OIL PRICE SHOCKS AD EXCHANGE RATE VOLATILITY ON ECONOMIC GROWTH: EVIDENCE FROM NIGERIA

¹Abubakar Mikailu Aminu, ²Alexander Abraham Anfofum, ²Alfa Yakubu
and ²Esther Oche Aladi

¹ Department of Economics, Federal College of Education Zaria

²Department of Economics, Nigerian Defence Academy, Kaduna

Corresponding Author's email: abubakarluty88@gmail.com



Abstract

The paper investigated the effect of Oil Price Shocks and Exchange Rate Volatility on economic growth in Nigeria. The study utilized both symmetric Linear Autoregressive Distributed Lag (ARDL) and asymmetric Nonlinear Autoregressive Distributed Lag (NARDL) Models of co-integration to capture oil price shocks and Generalised Autoregressive Conditional Heteroscedasticity (GARCH) Model to capture exchange rate volatility covering the period 1980 to 2019. The findings of NARDL model revealed that in the long-run, positive oil price has a negative but insignificant effect on GDP while negative oil price has a positive and significant impact on GDP. This suggests that, over the period of the study, oil price increase hampers economic growth in Nigeria while oil price decrease is growth enhancing for Nigeria. However, the result of the GARCH model shows that the sum of the ARCH and GARCH coefficients is greater than one, suggesting a high volatility in exchange rate over the period of the study. Based on the findings, the study recommends greater diversification of the economy through investments in key productive sectors of the economy to guard against the regular occurrence of oil price shocks and exchange rate volatility. Furthermore, the monetary authority should focus on policies that minimize the magnitude of exchange rate volatility in order to encourage foreign investment in the economy.

Keywords: Oil Price, Exchange Rate, Economic Growth, NARDL, GARCH