Lower Oil Prices, Environmental Sustainability and selected oil producing sub-Saharan economy: Is this time different?

Oluleke Peter Iyanu, M.Sc. Energy Studies (In view), Centre for Petroleum, Energy Economics and Law, University of Ibadan +2348136091678, emailoluleke@gmail.com.

Overview:

Over many years rises and fall of world oil prices have been repeatedly reflected in the boom-bust cycles in oil-exporting countries the world over (Berg, et al., 2009). The recent spectacular rise and equally spectacular fall in prices provides an opportunity to inquire whether anything is different this time. In this paper we limit the analysis to the experience, outlook, and long-term fiscal policy considerations for eight of the world's oil-producing countries in sub-Saharan Africa.

The global financial crisis has elevated the risk for all countries that there will be setbacks if growth slows further, compromising recent gains in stabilizing economies and reducing poverty. As political and public pressures to spend mount, particularly in oil-producing countries in sub-Saharan Africa, the room to maneuver has been narrowed by the lack of fiscal adjustment in the period leading up to the historical peak, and subsequent decline, in oil prices.

The study is motivated by recent global developments and by concern that management of oil wealth and improvement in fiscal policies in the region has not progressed much, so that there is a risk that opportunity has been lost (at least temporarily). The study's objective is therefore to examine the relationship between Lower Oil Prices, Environmental Sustainability and selected oil producing sub-Saharan economy.

Methodology:

Apart from the preliminary test used to ascertain the statistical features of the data, the methodology used in the study was based on the stationary of the variables. The study employed Augmented Dickey Fuller (ADF) to test for the order of integration of the series. In view of the study's results of having mixture of order of integration among the series and the bound test criteria where calculated F-statistics is greater than the critical value of the upper bound, ARDL approach to cointegration is adopted. This is because it is more appropriate to be applied than any other methods of testing cointegration as introduced by Pearan and smith (1998) and pesaran et al (2001). The countries focused on are Angola, Gabon, Sudan, South Africa, Botswana, Mautitius, Seychelles, Equatorial Guinea, Nigeria, and the Republic of Congo.

Expected Results

The result shows that the countries did not take full advantage of the record run-up in world oil prices in 2005–08 to consolidate their fiscal positions. Instead, non-oil primary deficits increased in five of them, and the adjustment in the other three was relatively small. This suggests that there was a repetition of the boom-bust cycle typical of oil exporting countries in response to rising oil prices. Also, of concern is that the latest episode of higher spending was accompanied by only limited improvement in public financial management; more would have provided some assurance that these resources were spent effectively

Conclusion

Over many years rises and fall of world oil prices have been repeatedly reflected in the boom-bust cycles in oil-exporting countries the world over. The recent spectacular rise and equally spectacular fall in prices provides an opportunity to inquire whether anything is different this time. In this paper we limit the analysis to the experience, outlook, and long term fiscal policy considerations for eight of the world's oil-producing countries in sub-Saharan Africa. Because we are interested in gauging their fiscal vulnerability and sustainability from the angle of managing exhaustible oil wealth, we focus on the non-oil primary balance as the relevant indicator of how initial conditions and resource endowments can influence long-term considerations in several different models of fiscal rules.

References:

Barnett, Steven, and Rolando Ossowski, 2003, "Operational Aspects of Fiscal Policy in Oil-Producing Countries," in Fiscal Policy Formulation and Implementation In Oil-Producing Countries, ed. By Jeffery Davis, Rolando Ossowski, and Annalise Fedelino (Washington: International Monetary Fund), pp. 45–81.

Barnett, Steven, and Alvaro Vivanco, 2003, "Statistical Properties of Oil Prices: Implications for Calculating Government Wealth," in Fiscal Policy Formulation and Implementation In Oil-Producing Countries ed. by Jeffery Davis, Rolando Ossowski, and Annalise Fedelino (Washington: International Monetary Fund), pp. 123–49.

Berg, Andrew, et al., 2009, "Fiscal Policy in Sub-Saharan Africa in Response to the Impact of the Global Crisis," IMF Staff Position Note SPN/09/10 (Washington: International Monetary Fund).

Bjerkholt, Olav, and Irene Niculescu, 2004, "Fiscal Rule Suggestions for Economies with Non-Renewable Resources: Norway and Venezuela," in Rules Based Fiscal Policy in Emerging Markets: Background Analysis and Prospects, ed. by George Kopits (Macmillan, 2004)