Fiscal Policy as a Challenge on Oil Exporting Countries

Ihe Ndubuisi John1, Iheduru Ngozi1 and Okorouka Michael C.2
1Department of Accountancy, Imo State University, Owerri.
2Department of Internal Audit, ABC Transport Plc, Owerri.

ABSTRACT
Fiscal policy assumes the life-wire, and most critically, of resource volatilized economies, it is facing specific challenges both in the start run as regards macroeconomic stabilization and fiscal planning, and in the long run, as regards intergenerational equity and fiscal sustainability. The paper demonstrated the fiscal policy challenges faced by oil Exporting Countries (OECs) in the past, including volatile revenue structure, weak budget system and sending pattern which often have given rise to high inflationary pressure, poor investment and low growth profile. The aim was to identify the weakness in the fiscal policy of oil-rich economies and make empirical assessment of policy impact on their economic growth. The paper revealed that fiscal policy of OECs had not significantly impacted on their economic growth, with more negative influence generated by crude oil prices, which is indicative of serious fiscal volatility and risk. It also showed that inflation and government spending had increased tremendously in oil exporting countries during upswings in oil surpluses and oil prices, suggesting that fiscal policies of OECs tend to be largely driven by government budgets, with less private sector leadership and developed market economic initiative. There appeared to be lack of evidence that fiscal crude oil surpluses accruing to OECs over the years have impacted significantly on economic growth of OECs, and this is indicative of fiscal policy weakness in translating abundant oil revenue into sustainable economic growth. To make a positive policy outcome for sustainable economic development in oil exporting countries, the budget process must be effectively managed, with the aim to decoupling government spending from volatile oil revenue, and institutionalizing private sector-led growth economy.

Introduction
Resource rich- economies in general are at a critical juncture, facing the challenge of revamping their fiscal policy institutions and conduct to strengthen macroeconomic and financial stability, raise growth and improve intra/intergenerational equity. Fiscal policy assumes the life-wire of any economy. Its key relevance applies to balancing and adjusting macro economic conditions to achieve growth. A prudent assessment of the general government budget gives a view of the approximate economic conditions, government resources movements and macroeconomic fiscal relationships. However, the foundation and principles of fiscal policy as credited to the Keynesian model seems to have failed top drive and address long term growth challenges, specifically in Oil Exporting Countries (OECs). The early proponents of fiscal policy predict that increased government spending or reduced tax will increase disposable income, raise private consumption and economic growth. According to Raghbendra (2007), four main components of fiscal policy are expenditure, budget reform, revenue (particularly tax revenue) mobilization, deficit containment/financing, and determining fiscal transfers from higher to lower levels of government. Therefore, fiscal policy crucially serves as a mechanism for adjusting government spending, monitoring and influencing macroeconomic conditions and mitigating conflicts between competing objectives in a given economy. Because this paper deals with OECs, it concentrates among other things on the challenges faced by OECs arising mostly from the fiscal oil volatility and dependency.
As a dominant model in practice and belief, the inability of high government spending and huge oil revenue to generate needed economic transformation fundamentally indicates that oil producing countries face serious fiscal policy challenge. Because abundant oil revenue accruing to government overtime becomes disposable through appropriation across the budget, fiscal policy of OECs tend to pro-cyclical intensify government avenue owing to its natural characteristic. Given the volatile and exhaustible nature of oil economy, institutional responses advocate fair intergenerational allocation of oil proceeds. Despite conservative oil price budget approach, fiscal policy challenge stems from the fact that, as the status quo suggest, government is more recognized as an accumulator of oil resources which are immediately converted to “income” than financial asset for future consumption and investment in physical assets like infrastructure. It therefore raises sustainability challenges over the fiscal policy practices and direction of oil producing countries. This is because, it is argued, from experience of OECs, abundant oil revenue has strong tendency to negatively influence the direction and pattern of fiscal management and socio-economic policies of those economies, with short and long run implications. All of these factors have contributed to poor growth but also to staggering destructive development
outcomes, indicating that the fiscal path of OECs economies is continuously driven by the budget which, due to institutional deterioration, could amount to oil mismanagement. The paper specifically examines the relationship between government spending and fiscal oil surpluses of OECs with a view to balancing the effects of these indicators on economic growth.

The paper therefore looks at the fiscal policy developments in notable four oil rich countries including Nigeria, Saudi Arabia, Russia, and Kuwait in periods of ups and downs in oil market economy; more considerably from 2005 to 2013 fiscal years. These five countries are among the world’s top ten net oil exporters, and represent mixed experience of different regions (Nigeria/sub-Saharan Africa), (Saudi Arabia/GCC), (Russia/C/S), and (Kuwait/GCC). They differ with key macroeconomics such as population growth and size, GDP per capital, and size of economy but share similarity in terms of high economic and fiscal dependency on oil revenue.

The key objective is to identify fiscal policy challenges on oil-exporting countries. Therefore, it aims to:
(i) Ascertain the effects of fiscal policy on the growth level s of OECs over the years
(ii) Identify the weaknesses in fiscal policy of OEC.

In terms of the objectives outlined empirical questions deals with the following:
(i) To what extent has oil surpluses of OECs impacted on their growth level?
(ii) Is the economic growth of OECs more affected by poor utilization of oil surpluses than crude oil fluctuations?

The following null hypothetical predictions are necessary to be evaluated in terms of the above objective.

H01: Fiscal policy in oil exporting countries has not impacted significantly on their growth.

H02: Crude oil prices do not impact more positively on the growth level of OECs than utilization of oil surpluses.

Assessing Fiscal Sustainability in OECs

Sustainability issue is one fiscal policy challenge of an oil economy. Here, this paper assesses whether or not an OEC can maintain its current fiscal policy without running into solvency problems or high fiscal risk. Fiscal sustainability analysis approach for oil rich economies are predominantly heterogeneous in literature. First of all, it presents the macroeconomic and fiscal volatility short and long run impact of fiscal policy. Second, it associates indicators of fiscal stance in oil producing countries to fiscal policy impact and sustainability.

According to Alien (2006), fiscal sustainability is important as it addresses short/long runs macroeconomic developments for any economy. It does not only deal with solvency of the government but it has acquired several dimensions that pertain to government that have no difficulty in meeting current obligation. Alien (2006) identifies four dimensions of fiscal sustainability include– solvency (the ability of government to pay its financial obligation), growth – (fiscal policy that sustains economic growth), stability (the capacity of government to meet to future obligation with existing tax burden), and fairness (the capacity of government to pay current obligation without slighting cost of future generations). These parameters overlap. Specifically, growth, the broadened concept of fiscal sustainability encompasses the notion of prudent finances. In other words, growth will not be sustained if deficits and debt breach the parameters of growth. Therefore, the relationship between economic indicators and fiscal volatility is important to determine sustainability implications of fiscal policy. The rest of this section looks into macroeconomic fiscal volatility, and indicators of fiscal stance in oil producing countries.

Fiscal Volatility Trend

Understanding what causes the price of oil to change can often times be a confusing subject. One factor is the global changes in supply and demand among other geo-political factors. With the aim to keep stable price, OPEC activities continue to drive oil prices. According to Matt (2014), the pattern of consumption between developed and developing countries (e.g. the developing Middle East, the strong growth in demand from China and USA, other industrialized economies, and the economic philosophies of OECs) are issues. Among the four consumers of energy demand (transportation, residential, commercial and industrial), transportation sector is the largest sector, accounting for the 55% of oil use worldwide (Hirsh, 2010). There is however a growing consensus among researchers like Kent (2013), jun (2013), lutz (2010) that attributes oil price shocks to a combination of rising demand and tension in the Middle East and North Africa (MENA) which may cut global growth by as much as 0.5 percent by 2014. According Edward (2013), IMF predicts average global oil decline to $101.40/b with showing energy market demand in 2014.

Chart A. Int’l Crude Prices Volatility (2005-2013)

Increased demand from China and India since 2002 continues because these economies are at an energy intensive stage of development. In the worst case, IMF had predicts that disruptions in the Middle East would push oil price at $133/b in July 2008 with 1% increase from the previous month and 14% decrease from the preceding month, which is in relatively is in tandem with facts in figure 1. The trend line or series 2 appears to slope downwards, indicating greater downward vitality in the rate of change of oil price than upward movement. The highest increase in oil price was recorded in mid 2009 when price increased by 19% (i.e from $58/b to $69/b), while the highest decrease occurs in October 2008 when oil prices declined from $99/b to $73/b resulting to 27% decrease. Volatility can have high costs. It tends to be negatively correlated with investment ratios, can lead to short-term bias in fiscal policy, and destroy human and physical capital during deep recessions. Therefore, it could be predicted that OECs budget performance is dependent on volatile oil revenue and, this further highlights greater exposure to fiscal risk.

Fiscal Cyclical

The macroeconomic impact of changes in economic quantities and the nature of relationships can raise fiscal cyclical challenges in OECs. Research shows that fiscal (and monetary) pro cyclicality is more likely in countries with poor fiscal governance, high levels of corruption, low fiscal credibility, domestic financial under-development, and weak
integration into world financial markets (Abdih, López-Murphy, Rotiman and Sahay, 2010, Calderon, Duncan and Schmidt-Hebbel 2011). This evidence is particularly relevant for OECs, where fiscal policy is pro-cyclical. For example, with the exception of Kuwait general government balances worsened substantially in most OECs (Fig. 5 to 8), during the late 2008 and 2009-2010 oil-price shock followed by recovery hence exhibiting strong policy pro-cyclicality. Long-term fiscal cyclicality position predictably worsens in oil-producing countries due to weak fiscal sustainability. Villafuerte and López (2010) contend that fiscal positions are often vulnerable to reversals after price booms in resource-rich economies. In oil-producing countries, a relatively small decline in oil prices leads to a substantial increase in net financing needs, as a result of absence of fiscal and exchange-rate adjustment.

The analysis of oil price volatility poses many useful implications to oil dependent economy. First, it makes the budget and fiscal balances highly sensitive when budgeted oil price does not match with global crude prices. For instance, between August 2008 and February 2009, the average oil price and price change stood at $67/b and 15% decline respectively. This is the longest period of shock in oil fiscal revenue. Further analysis shows that, in term of fiscal risk, most countries whose budgeted oil price falls within this region could be possibly trapped. Later discussions will reveal volatility trend effects of oil on macroeconomics.

In terms of volatility management in some OECs like Mexico, the current fiscal framework has led to limited smoothing of the impact of revenue vitality on public expenditures. Poverty and education outlays an also be adversely affected (Serven, 2007). According to OECD (2009), volatility can be smoothed by a more gradual injection of oil revenues to the economy, particularly by increasing the caps on the stabilization funds. This would have the additional benefit of counting with a larger fiscal cushion in economic downturns, as debt-financing of larger deficits can be costly amid a general rise in perceptions of risks. So strengthening the mechanisms in the budget to limit expenditure volatility is desirable. Reforming the fiscal rules to reduce volatility is thus an important change.

**Fiscal Oil Price Benchmarking and Budget**

In trying to identify the fiscal position of OECs, there is need to make a relative assessment of OECs budgeted oil prices and international oil price averages per barrel as shown in the fig.2 for the period 2015-2013.

Fiscal oil budget effect looks at the fiscal situation between international and OECs budgeted oil prices per barrel leading to fiscal all budget surplus or deficit. For the period, Kuwait and Nigeria experienced the largest oil budget surplus of $333 and $263 per barrel respectively, followed by Saudi Arabia with $250 per barrel and Russia, with $ per barrel. This indicates that some OECs have adopted more conservative oil price benchmark than others. The 2008 fiscal year is significant to OECs for two major reasons:

First, OECs experience the highest oil price volatility (fig 2), with international crude price rising from $91/b in January to the peak price of $133/b in July followed by a drastic decline to $42/b by December, indicating net average crude price change at -5% (col. Fig.2). On account of this, James (2009) explains that the world oil market operates subject to the familiar laws of demand and supply, and market fundamentals dominantly influence prices. He notes that endogenous factors that distort oil production in regions, remarkable, the Nigeria Workers union strike of April 25, 2008, which caused ExxonMobil to shut in production 780,000 barrels per day from three fields. And as of may 1, 2008, about 1.36 million barrels per day of Nigeria production was shut in due to a combination of Niger Delta Militant attacks oil facilities, sabotage and labour strife.

Fig (2b) Relationship Chart: Int’l Oil Price and Fiscal Surpluses of OECs

The period’s oil peak saw Nigeria, Saudi Arabia and Kuwait with their largest fiscal oil surpluses (*) respectively while Russia’s surplus increased by 50% ($16/b to $32/b) per barrel (**) in 2009, the net average increase of 5% in world oil price (oil price at $62 per barrel) saw OECs with drastic reduction in oil fiscal surplus with Kuwait experiencing reduction of 43%, Nigeria 56%, Russia 63% and Saudi Arabia 94%. Note that while Saudi Arabia stands largest in terms of oil surplus revenue in 2008, this trend reversed in 2009. Although OECs budgets took recognition of the protracted turbulence of 2008 oil shock by adopting conservative budget oil price benchmark, fiscal surplus of these countries differed significantly between these periods. It becomes clear that planned fiscal crude surpluses for OECs assumes that market oil price and budgeted benchmark price must be well fitted. This also informs that the domestic fiscal oil economy can be controlled virtually through conservative budgeting system, as long as crude surplus forecast is based on international oil prices dynamics. The methods used in determining oil price benchmark vary in terms of their effectiveness across OECs.

**Oil price Benchmarking Methods by OECs (Nigeria & Saudi Arabia)**

Government budgets of oil exporting countries are based on specific oil prices (benchmark). The methods of reaching the benchmark price vary with macroeconomic indicators across OECs hence, some rules are more effective than others.
and OECs are faced with difficulty in choice of method. Nigeria’s policy markers use the Moving Average Method (MAM) for pegging oil price benchmarks, Abiola and Harrison (2013). This method involves taking an average of a long series over the years to make projections about the future behavior of the series. According to Abiola and Harrison, the rationale as argued by BOF is to capture the long term period of cyclical economic behaviors of crude oil prices and save some amount of money to smoothen government fiscal concern in times of economic peril. Abiola and Harrison maintain similar notion arguing that the MAM operational in Nigeria budgeting system seems not be systematic because it does not take into account more importantly short term movements and nature of oil price volatility, hence, the use of Autoregressive integrated moving Average (ARIMA) is suggested.

Source: SAMA, OPEC & Global Research (as quoted in Omar et al., 2009)

According to Michael, Francois and Juan (2009), the rise in inflation has been driven by a combination of global and domestic factors. Global factors include increasing commodity prices, in particular oil and food prices, which have led to a rise in inflation worldwide. In recent years the weakness of the US dollar has been another factor contributing to inflationary pressure in many oil-exporting countries because of their exchange rate regimes. The key domestic factor has been buoyant domestic demand in the wake of high oil prices, accompanied in many cases by rapid money and credit growth. Indeed, some correlation is observable between real public expenditure increases in oil-exporting countries over recent years and inflation rates. Therefore special nature of oil-dependent economy can inform selected approach for the analyses of fiscal policy challenges they face. In terms of this, Omar et al. suggest the use of non-oil balances together with the overall balances. This segment of the paper dwell on assessing the rate of increase/decrease in selected macroeconomic indices, including growth rate, overall general government balances, total expenditure, and inflation rate of each OEC (figures 4a-d).

Kuwait

Kuwait is a small, oil-rich country nestling at the top of the Gulf Corporation Council (GCC), flanked by large or powerful neighbours—Saudi Arabia to the south, Iraq to the north and Iran to the east. Petroleum accounts for nearly half of GDP, 90% of export revenues, and 95% of government income. Despite large oil revenues, the economy has been badly affected by the global financial crisis (BBC, 2014). Economic policy-making had been held back by disputes. According to Yousef (1996), the major jumps in the price of oil during 1973-74 and 1979 gave GCC countries a historic opportunity to achieve sustainable economic development with diversified high value-added economic sectors, with their oil revenues jumping from $8 billion in 1972 to $150 billion in 1980. He notes that these huge financial resources, unfortunately, were squandered, leaving the economy as it were thirty years ago. The foregoing facts relate well to the figure 5. Although the overall net balances remains positive at an...
average of 12.54% for the review period, growth has remained virtually less impressive despite high government expenditure especially, since 2007. Fiscal government balance dropped significantly in 2008, with sluggish recovery from 2009. This is despite the economy experienced the largest crude surplus of $47/b (fig. 2).

Also inflation heightened in 2008 at 10.6% with an impact rate of 94% over 2007 fiscal year (fig 5). The gradual reduction in inflation rate at 3.8% average of 2008-2015 with average net impact of -13.46% reflect the government ability to improve general balances with the period at 18.4% average, but public expenditure continues to take upward swing while growth rate fails drastically. Syed (2014) observes: “these imbalances are partially or wholly linked to the exchanged relationship with the size and nature of the role played by the government in economic activity, which has resulted in the oversized growth of its administrative sector and the complication of procedures – thus hindering sustainable growth;”

Russia

Russia is a mixed economy with state ownership in strategic areas of the economy. Market reforms of the 1990s privatized much of Russian industry and agriculture, with notable exceptions in the energy and defence-related sectors. Russia is unusual among the major economies in the way it relies on energy revenues to drive growth. The country has an abundance of natural resources, including oil, natural gas and precious metals, which make up a major share of Russia’s exports. As of 2012 oil and gas sector accounted for 16% of the GDP, 52% of federal budget revenues and over 70% of total exports.

Russia net average general balance remains at huge decrease between 2005-2013. Growth has remained virtually less impressive since 2009 with a sluggish upward movement. The decline in growth in 2009 is predicted on rapid decline in fiscal crude surplus 63% (crude supply = $12/b) compared to $32/b in 2008 (fig. 6). Also inflation heightened in 2008 & 2009 fiscal year, the severe shortfall in crude supplies could have curtailed public spending, but this was high at 41.35% of GDP, while growth rate followed an inverse relationship and Impacting the economy at about 249% (fig.6). This informs on fiscal policy risk of budget depending on volatile oil revenue.

Saudi Arabia

Saudi Arabia has an oil-based economy with among government control over major economic activities. Saudi Arabia possesses 18% of the world’s proven petroleum reserves, ranks as the largest of petroleum, and plays a leading role in OPEC, although its influence has waned in recent years. The petroleum sector accounts for roughly 92.5% of budget revenues, 55% of GDP. And 90% of export earnings. About 40% of GDP comes from the private sector.

Saudi Arabic net general balance remains at huge decrease from 2009 to 2010 and impacting the economy at average rate of 149.5%. Recovery between 2011 & 2012 is predicted on the up-swing in crude surplus and more conservative government spending. Saudi Arabic was most hit in the aftermath of 2008 fiscal year with sharp decline in crude surplus of 93% between 2008/2009. The 41% impact rise in growth in 2008 (fig.7) is predicted on the surplus crude of $48/b, but this however produced highest inflation rate of 6.10% with subsequent ugly development leading to growth rate and general balance decline in 2009 by 78% and 113% respectively. IMF (2014) reveals that total government expenditures increased from US$1.6 billion in 1970 to US158.9 billion in 2010 (a 9,800 percent increase in nominal and 1,700 percent increase in real terms) in order to meet continuing increase in demand due to population growth and higher standards of living. Despite this fact, unemployment has remained high in recent years. This underlines the importance of the composition of government spending and how it could be altered to encourage private-sector-led growth and reduce unemployment.

Nigeria

Nigeria is a middle income, mixed economy and emerging market, with expanding financial, service, communications, and technology and entertainment sectors. It is ranked 26th in the world in terms of GDP (nominal: 30th in 2013 before rebasing, 40th un 2015, 52nd in 2000), and is the largest economy in Africa (based on rebased figure announced in April 2014) Economists refer to the coexistence of vast wealth in natural resources and extreme personal poverty in
developing countries like Nigeria as the “resource curse” (an abundance of natural resources which fuels official corruption resulting in a violent competition for the resource by the citizens of the nation). Nigeria’s exports of oil and natural gas-at a time of peak prices-have enabled the country to post merchandise trade and current account surpluses in recent years. Reportedly, 80% of Nigeria’s energy revenues flow to the government; 16% cover operational costs, and the remaining 4% go to investors. However, the World Bank has estimated that as a result of corruption 80% of energy revenues benefits only 1% of the population.

Nigeria’s fiscal position in terms of general government balances remains less impressive, especially since 2009. There is no doubt that increases in crude surpluses since 2005 has sustained increase in government expenditure (figure 4d). However, the fiscal illusion is also present in Nigeria. High crude surplus of $ 39/b in 2008 yielded hyperinflation outbreak of 11.6% posing net impact of 113.9% on the economy over the previous fiscal year. Taking into account differences in size, magnitude, and the tools to deal with these problems, OEGs face similar challenge in discussions that follow.

The Structure of Public Spending and Timing

According to Michael et al. (2009), improving the structure of public spending requires the focusing of expenditure increases on investment, while at the same time containing consumptive expenditure, adding that capital expenditure needs to be concentrated in those areas that represent bottlenecks in the economy and thus contribute to inflationary pressure. They advocate optimizing the phasing of public spending, which entails giving priority to public spending (in particular investment) that helps to alleviate bottlenecks in the economy and increases its absorptive capacity and postponing other less urgent public investment to periods with lower inflationary pressure. Although the timing of public investment tends to be difficult to fine-tune, recent economic developments provide a good example. In their view, in 2007-08 public investment might have added to rising inflationary pressure, but it may be much less problematic from a cyclical point of view in 2009-10 in the wake of the global economic downturn, lower oil prices and receding inflationary pressure, and may even be a welcome contribution to stabilizing the domestic and global economy. As the present paper illustrates in fig4. The inability of increased expenditure for most OECs to match with growth could be predicted on the structure and prioritization of spending and, investment timing. Growth continues to move insignificantly even after crude price rise as a result of proceeding inflationary pressure hence, eroding spending on investment. Therefore, timing is activity driven. The paper however argue that, in an oil economy, the effective functionality of the budget is highly desirable in the light of absorptive capacity of the impact of trendy economic volatility; otherwise the budget tends stimulate stereotyped form of spending even when inflationary pressure tends to respond pro-cyclically. In other words, focusing on development related spending needs as described above would help to calibrate fiscal policy in a way that is more conducive to macroeconomic stability.

Institutional Responses

The common institutional practices of oil-exporting countries in responses to mitigating fiscal challenges vary. These institutional response are (i) setting up budgets on the basis of conservative oil price assumptions, (ii) establishing oil stabilization and savings funds (OSSFs) and (iii) introducing implicit or explicit fiscal rules.

Setting up budgets on the basis of conservative oil price assumptions

This practice has been discussed above and illustrated with fig2. While it leads to fiscal prudence and is often motivated by political economy considerations, it on the other hand basing reduces fiscal transparency and increase the leeway for the executive to spend. This is because if higher revenues based on more realistic oil price assumptions were used and the initial budget showed large surpluses, it would be more difficult for the authorities to resist various pressures to increase expenditure.

Oil Stabilization and Savings Funds (OSSF)

Most oil-exporting countries have set up oil stabilization and/or savings funds which manage part of the country’s foreign assets and usually invest them more aggressively than central banks invest traditional foreign exchange reserve. Apart from this investment return motive, the establishment of these funds is mainly driven by fiscal policy considerations. According to OECD, the stabilization function of oil funds addresses the short-term challenges of fiscal policy and aims to make the conduct of policy less volatile and less procyclical by de-linking public spending from oil prices. When oil prices are high, the funds may also help contain inflation and avoid over-heating in the economy. When oil price are low, they provide a buffer for “rainy days”, as governments can draw on the fund and thus prevent sharp and potentially disruptive adjustments in expenditure. The savings function of oil funds addresses the long term challenges of intergenerational equity and fiscal sustainability that accompany non-renewable resources. The revenue from accumulated financial assets can replace income from oil once those resources are exhausted.

- The oil fund of Nigeria, (Excess Crude Oil Account – ECA) established in 2004, is solely a stabilization fund. The main rationale behind the Excess Crude oil account is to close budget deficits due to oil price volatility, and potentially to fund domestic infrastructure investments, as the infrastructure gap is a major impediment to growth in Nigeria. Pil revenues in excess of the budgeted oil price and production level are transferred into the Excess crude oil account, which is held at the central bank in the names of the various government entities, as Nigeria is a federal state. Lack of adequate institutions and support by federal and state government limits its efficacy and objectives.

- The oil fund of Russia (Oil Stabilization fund) was established in 2004 following the adoption of the Budget Code
of the Russian Federation in December 2003. It is a cross between a stabilization and a savings fund with the objectives of financing the federal budget deficit if the oil price falls below the reference price. In addition to the unspent fiscal surplus of the previous year, the financing of the stabilization fund held at the central bank comes from two sources: oil export duties (in excess of a reference price) and the mineral extraction tax. However, oil funds pose a number of challenges of their own, including with regard to governance, transparency and accountability, and are not a panacea for the fiscal challenges of oil-exporting countries (Klaus, 2012). They are not a substitute for explicit fiscal policy decisions or fiscal rules and political commitment both to smoothing expenditure and to ensuring long-term fiscal sustainability. Furthermore, their contribution to sound fiscal policies depends on the general quality of institutions and public financial management. In countries where oil funds seem to have enhanced fiscal prudence, the effect might simply be ascribed to self-selection effects. Nevertheless, there is some evidence that oil funds are conducive to reducing macroeconomic volatility. This may be attributed to the fact that OSSDs tend to be used as a tool for neutralizing the monetary impact of oil-related capital inflows (i.e. for keeping oil revenues outside the domestic banking sector).

**Fiscal Rule**

According to Kiaus, fiscal rules are adapted to attain one or more of three objectives: sustainability of public debt, control of government size, and contribution to cyclical stability. A recent world-wide panel data study by Elbadawl et al. (2011) provides empirical evidence on why countries adopt and maintain rule-based fiscal policy regimes. Their report shows that fiscal conditions, government stability, inflation targets, fixed exchange rates, global financial integration, democracy, political checks and balances, and overall development raise countries’ likelihood to adopt fiscal rule. Fiscal rules can be quantitative i.e. provide numerical benchmarks for one or more key parameters of fiscal policy with the aim of limiting political discretion, or procedural, i.e. aim at improving budgetary institutions and management. Nevertheless, Michael et al. (2009) contends that it is increasingly acknowledged that carefully designed fiscal rules can constitute a helpful device to foster fiscal discipline. Given the volatility of oil revenues and the tendency towards pro-cyclical fiscal policies in oil-exporting countries fiscal rules could be particularly useful for guiding fiscal policy in oil-exporting countries, while at the same time the choice of an appropriate numerical indicator is challenging given the impact of oil price fluctuations on the budget.

**Methodology**

The paper adopted a quantitative approach, using historical economic data from OECs and, with the use of Spearman’s Rank Correlation to test hypothesis one; and multiple regression test for hypothesis two. The sample size, n=9. The models in equation (i) and (ii) specified below respectively predict that economic growth (G) is a function of fiscal oil surplus (P1)for H3, and this was measured with statistical technique (a), and economic growth (G) is a function of fiscal oil surplus (P2) and crude oil price (P3) for H2, which was measured with statistical technique (b) as contained in the box below.

From fig. 9(a), the contingency table showed data (G) and average crude oil surplus (P1)to test the hypothesis that fiscal policy has not impacted significantly on the economic growth of oil exporting countries. At first glance, the test did not show a significant relationship between oil surpluses and economic growth. The SPSS generated result of the Spearman’s correlation coefficient (Rho) produced a coefficient of 1.109 which is less when compared with Rho=0.6833(i.e. Rho at (n,a) = (9.0.05)). Based on this, H3 is accepted which is indicative that fiscal policy of OECs has not significantly impacted on their economic growth.

Similarly, from fig. 10(a), the contingency table demonstrated multiple relationship of three variables: average growth rate (G), average crude oil surplus (P1), and average crude oil price (P3) represented in equation (i). The hypothesis H3 predicted that crude oil prices do not impact more positively on the growth rate of oil exporting countries than oil surpluses. The SPSS generated result of the multiple regression tests. With B =0.307 and 0.097 for P1 and P2 respectively, it shows that crude oil price (P2) exerts negative influence on growth, even as oil price surplus (P1) does not seem to show strong positive effect on the growth rate of OECs. This effect is highlighted in fig. 10(c) with adjusted R=0.35 (i.e. 35%), and further validates the interpretation above.

From fig. 10(d), the ANOVA statistics showed Fcalc = 3.151 which is less than Ftab= 5.14(i.e. F(5,15) at 5% = F(5,15)=5.14). Based on this, the null hypothesis (H2) is accepted at 5% level of significance with conclusion that crude oil prices do not impact more positively on the growth rate of oil exporting countries than crude oil surpluses.

**Findings**

The study produced the following outcomes:

Fiscal policy of OECs had not significantly impacted on their economic growth. The relationship between crude oil.
surpluses and the economic growth level of oil producing countries was not significant.

i. Crude oil prices (international crude oil prices) did not impact more on the economic growth of oil exporting countries than crude oil surpluses. The multiple relationships confirmed that crude oil prices had showed an inverse relationship with growth rate, with oil surpluses indicating moderate positive relationship.

ii. Inflation and government spending had increased tremendously in oil exporting countries during upswings in oil surpluses and prices.

**Conclusion**

The study revealed some critical facts about the fiscal policy of oil exporting countries (OECs). First, fiscal policy of OEC had not significantly impacted on their economic growth. It also showed inflation and government spending had increased tremendously in oil exporting countries during upswings in oil surpluses and oil prices. There are implications these may suggest. First, fiscal policy of OECs tends to be largely driven by government through the budget, with insignificant private sector leadership. Second, fiscal policy of OECs highly volatilizes the budget and broadens fiscal risk. Consequently, there is lack of empirical evidence to uphold that fiscal policies of OECs have significantly impacted on growth. These are to some extent the result of the specific long and short-term challenges of fiscal policy in resource-rich countries. The paper contends that OECs face greater fiscal policy challenge owing to the weak budget performance and structure, and line with IMF (2014), it is of the opinion that government spending could be altered to encourage private sector-led growth and reduce unemployment. Considering the exhaustibility and finiteness of oil rent, it is indicative that in the area of equitable allocation of oil revenue, lack of functional fiscal institutionalization and framework are potential to lead an economy to intergenerational fiscal crisis.

**Recommendations**

There is need for the government of OECs to have a more transformative perception of the budget. The budget should be seen as a “means” but not an “end” towards achieving positive fiscal outcome. Strong fiscal institution must be functionally developed at all levels of government. It is advocated that oil revenues spending by way of allocation by government should be in form of social welfare and economic services which are subject to strict and target-based appraisal, while the private sector is actively supported to drive the economy. Where these growth functions are alternated, natural fiscal crisis persists. Based on this scenario, government should become the Growth channel while the private sector becomes growth driver for positive policy outcome.

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