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Revisiting the Impact of Oil Price on Trade Deficit of Pakistan: Evidence from Nonlinear Auto-Regressive Distributed Lag Model and Asymmetric Multipliers

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Abstract : Oil prices are believed to have a major impact on several economic indicators, leading to several instances where a comparison between oil prices and a trade deficit of oil-importing countries have been carried out. Building upon the narrative, this paper sheds light on the ongoing debate by inquiring upon the possibility of asymmetric linkages between oil prices, industrial production, exchange rate, whole price index, and trade deficit. The analytical tool used to further understand the complexities of a recent approach called nonlinear auto-regressive distributed lag model (NARDL) is utilised. Our results suggest that there are significant asymmetric effects among the main variables of interest. Further, our findings indicate that any variation in oil prices, industrial production, exchange rate, and whole price index on trade deficit tend to fluctuate in the long run. Moreover, the long-run picture denotes that increased oil price leads to a negative impact on the trade deficit, which, in its true essence, is a disproportionate impact. In addition to this, the Wald test simultaneously conducted concludes the absence of any significant evidence of the asymmetry in the oil prices impact on the trade balance in the short-run.

Keywords : trade deficit, oil prices, developing economy, NARDL
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