

# **Fluctuation in the oil Revenues and their Effects On the Private Consumption**

(Empirical Study: The Case of the Kingdom of Saudi Arabia and the Kingdom of Bahrain)

## **Abstract**

Since it has been discovered in the Kingdom of Saudi Arabia, Oil has played an important and growing role in the economy of Saudi Arabia. And because the Kingdom is a major Oil exporting country in the World, Its income level has increased manyfold.

The injection of this increased income into the domestic economy created demand for new goods and services. Hence, a new pattern of consumption emerged.

The reliance of the economy of Saudi Arabia on oil exports, which are oscillating in term of their value according to the continuous oscillation in the international oil prices, makes all sectors of the economy vulnerable to this volatility. And here is where the importance of this study arises. That is the objective of this study is to study the extent to which the private consumption is affected by the oscillation in the oil revenues of Saudi Arabia, in addition to some other variable. For further insight into this Problem. The case of Saudi Arabia is compared with that of the Kingdom of Bahrain because of the different size of the oil sector in these two economies.

The results have pointed out that the private consumption in Saudi Arabia and the Kingdom of Bahrain is determined directly by the private income, and indirectly by the income of the oil sector.

Moreover, the cointegration analysis indicated the existence of a stable long-run relationship between oil revenue and private consumption in the case of Saudi Arabia, While such a relationship does not exist in the case of Bahrain. This reflects the gradual shift in the classification of oil revenues from a temporal income (with a limited impact on the private consumption) to a permanent income (as a significant part of the income that affects the private consumption). Thus, oil revenue fluctuations are accompanied indirectly by fluctuations in the Saudi private consumption. Moreover, the results of the impulse response function and the variance analysis have indicated that the shocks of oil revenues in Saudi Arabia play a greater role in the short term, but the money supply takes this role in the long term. But in the case of Kingdom of Bahrain, the private consumption variable occupies the first rank among the variable that explain the variance of the prediction error of the private consumption itself in the short term and long term.

In sum, There results show the important role played by oil revenue in the fluctuations of the private consumption in Saudi Arabia compared to that of Bahrain.