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Effect of United States–Israel War on Iran on Income Generated from Nigeria's Crude Oil Sales

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Abstract

The global energy market experienced significant uncertainty in 2026 due to the escalation of conflict involving the United States, Israel, and Iran. Because crude oil remains a strategic global commodity, geopolitical tensions in the Middle East influenced international oil prices and created economic opportunities and challenges for oil-producing countries, including Nigeria. This paper examines the effect of increased income generated from Nigeria's crude oil sales in 2026 as a result of the United States–Israel war on Iran. The study focuses on the impact of increased crude oil earnings on government revenue, fiscal capacity, economic growth, inflation, and national development. The paper adopts a qualitative research approach based on secondary information from economic reports, policy analyses, and energy market assessments. Findings suggest that the conflict created a temporary oil revenue windfall for Nigeria, because global crude prices rose above the assumptions used in the 2026 national budget. However, the gains were accompanied by inflationary pressures, increased domestic fuel costs, and risks associated with over-dependence on petroleum revenue. The paper concludes that, the oil income increase created short-term fiscal benefits, but sustainable economic development requires effective management of oil revenue and diversification of Nigeria's economy.

Keywords: Nigeria, crude oil revenue, income generation, US–Israel–Iran conflict, oil price shock, economic development.

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Introduction

International conflicts have historically influenced global economic activities, particularly in areas connected to energy production and trade. The crude oil market is highly sensitive to geopolitical events because oil supply disruptions, security concerns, and uncertainty in major producing regions often affect international prices. In 2026, the conflict involving the United States, Israel, and Iran generated significant volatility in global energy markets, creating opportunities and risks for oil-exporting economies. (NESG, 2026)

Nigeria, as one of Africa's major crude oil producers, is highly connected to global petroleum markets. Crude oil exports contribute substantially to government revenue, foreign exchange earnings, and national income. The Nigerian economy has historically benefited from periods of high international oil prices, although it has also suffered from the weaknesses associated with dependence on petroleum revenue.

The escalation of conflict involving the United States, Israel, and Iran contributed to increases in global crude oil prices during the period of tension. Reports indicated that Nigeria's Bonny Light crude benefited from the price increase, with average prices rising significantly during the conflict period, (NESG, 2026). Some analysts estimated that Nigeria and oil-producing companies gained billions of dollars in additional earnings because of the higher crude prices, (FGN, 2026).

Nigeria's economy has long depended on crude oil as a major source of public income. Revenue from petroleum exports supports government expenditure, infrastructure development, foreign exchange supply, and national financial planning. Although Nigeria has made efforts to diversify into agriculture, manufacturing, technology, and services, crude oil continues to play a central role in public finance.

The 2026 Nigerian fiscal projections were based on assumptions about crude oil prices, production levels, and exchange rates. The government's budget benchmark was reportedly based on a crude oil price assumption of about $64.85 per barrel, (NFBR, 2026). However, conflict-related energy market disruptions pushed international crude prices significantly above the budget benchmark, creating additional revenue opportunities. (PwCN, 2026)

The increase in crude oil income occurred because investors and energy markets responded to fears of supply disruptions linked to the Middle East conflict. Nigeria benefited from being an Atlantic oil producer because it was not directly located in the conflict zone and could continue supplying crude to international markets. (NESG, 2026) However, increased oil income does not automatically translate into improved welfare. The impact depends on how government manages the revenue, whether inflation is controlled, and whether additional income is invested in productive sectors. This paper examines how the additional income generated from crude oil sales in 2026 affected Nigeria's economy and considers whether the revenue windfall contributed to sustainable economic development or created new economic pressures.

Statement of the Problem

Nigeria has experienced repeated cycles of oil revenue increases followed by economic difficulties when global oil prices decline.

The dependence on crude oil earnings creates vulnerability because international conflicts and market conditions influence national income. The 2026 US–Israel conflict with Iran created a situation where Nigeria received higher income from crude oil sales due to increased global prices. However, the country also faced challenges such as higher energy costs, inflation, and increased cost of living.

The problem of this study is therefore to determine whether the additional income generated from crude oil sales during the conflict period produced meaningful economic benefits for Nigeria or whether the negative consequences reduced the expected gains. While the main objective is to examine the effect of income generated from Nigeria's crude oil sales in 2026 as a result of the United States–Israel war on Iran. The study examines the influence of the increased crude oil income on government revenue, economic activities, and development financing.

The research questions centered on: What effect did increase crude oil income in 2026 have on Nigeria's government revenue? Did the oil revenue increase contribute positively to Nigeria's economic development? While the hypothesis assumed that, Income generated from Nigeria's crude oil sales in 2026 as a result of the United States–Israel war on Iran has no significant effect on Nigeria's economic development.

Literature Review

The conflict involving the United States, Israel, and Iran has significant implications for global energy markets because Iran occupies a strategic position in the global oil supply chain. Iran controls access to the Strait of Hormuz, through which a substantial share of global crude oil exports passes. Any military confrontation involving Iran often creates uncertainty regarding oil supply security, resulting in increased crude oil prices in international markets. Studies on geopolitical risk suggest that wars and military conflicts in major oil-producing regions generate oil price volatility by affecting production, transportation routes, and investor expectations.

The independent variable in this study is the United States, Israel, and Iran war. This represents geopolitical conflict, military escalation, sanctions, and international uncertainty. The dependent variable is Nigeria's economic development. This includes economic growth, government revenue, inflation, employment, investment, and living standards. The conflict influences economic development through several intermediate factors. These include global oil prices, foreign exchange earnings, trade conditions, energy costs, and investor confidence.

Theoretical Framework

For the purpose of this research, two relevant theories were employed: the resource dependence theory and the international political economy theory, with each explaining one aspect of the problem at hand.

Resource Dependence Theory: - This theory explains how economies that rely heavily on natural resources are influenced by changes in resource markets. Nigeria's dependence on crude oil means that international oil price movements have a direct impact on national income. When oil prices rise, government revenue increases; when prices fall, revenue declines. The 2026 oil price increase demonstrates how external events can create financial opportunities for oil-dependent economies.

International Political Economy Theory: - This theory examines how political events influence economic outcomes across countries. The US–Israel–Iran conflict affected global oil markets and indirectly influenced Nigeria's income generation. The theory explains that economic effects can spread beyond conflict zones through trade, energy markets, and financial systems.

Empirical Literature

Englama and Oputa (2010) investigated the effects of global oil price shocks on Nigeria's external sector using a Vector Autoregressive (VAR) model. Their findings revealed that oil price shocks significantly influence Nigeria's external sector performance, foreign exchange earnings, and macroeconomic stability. The study concluded that fluctuations in global oil prices have direct implications for government revenue and economic growth.

Similarly, Ekpo (2023) analyzed Nigeria's dependence on crude oil exports and found that excessive reliance on oil revenue has made the economy vulnerable to global market fluctuations. The study emphasized that increases in oil prices provide short-term revenue gains but expose the economy to long-term volatility and fiscal risks.

Moreover, Kutu and Ohonba (2024) examined the impact of crude oil price fluctuations on revenue generation in Nigeria using the ARDL methodology covering 1981–2021. Their results showed that oil revenue exerts a strong positive influence on total government revenue, confirming Nigeria's dependence on oil receipts for fiscal sustainability. The study further established that changes in oil prices significantly affect revenue outcomes through oil export earnings.

Also, Iriabije, Ochiabuto, and Iriabije (2025) reviewed the relationship between crude oil revenue and Nigeria's economy and found that crude oil remains a dominant determinant of economic performance, government expenditure, and foreign exchange availability. The study highlighted that positive oil price shocks generally improve fiscal conditions and economic growth in Nigeria.

Therefore, the conflict involving the United States, Israel, and Iran in 2026 created significant changes in the global crude oil market. Since Nigeria depends heavily on crude oil exports for foreign exchange earnings and government revenue, the increase in international oil prices created a temporary increase in Nigeria's oil-related income generation. However, the economic effect must be examined carefully because higher oil earnings occurred alongside inflation, increased energy costs, and global uncertainty (IMF, 2026).

Nigeria's income generation from crude oil is mainly derived from crude oil export receipts, petroleum-related government revenue, foreign exchange inflows, and taxes from oil sector activities. The conflict increased oil prices because markets anticipated possible disruptions in Middle East oil supply, especially concerns around the security of major energy routes such as the Strait of Hormuz (NESG, 2026).

Available estimates indicate that Nigeria experienced a significant crude oil revenue increase during the period of heightened conflict. According to market reports, Nigeria and oil-producing companies operating in the country reportedly gained an estimated US$4 billion windfall during the early weeks of the conflict as crude prices increased (IMF, 2026). Nigeria's Bonny Light crude reportedly rose from an average of about US$70.14 per barrel before the conflict period to about US$116.84 per barrel during the reported 52-day period, representing an increase of about 66.6 percent, (NFBR, 2026).

A major implication of this increase was higher government income from petroleum exports. Nigeria's 2026 fiscal planning was based on a crude oil benchmark of approximately US$64.85 per barrel, meaning that oil prices above this benchmark created the possibility of additional revenue beyond initial projections (IMF, 2026). Some economic projections suggested that a prolonged Middle East crisis could generate a much larger oil revenue windfall for Nigeria, potentially reaching about ₦30.2 trillion under certain high-price scenarios (NESG, 2026). The following estimated data summarizes the effect:

Table 1: Summary of the Effect of the Estimated Data Generated

Economic Indicator	Situation Before Conflict	Situation During Conflict	Effect on Nigeria
Bonny Light crude oil price	About US$70.14 per barrel average	About US$116.84 per barrel reported average during the conflict period	Increased crude oil earnings
Nigeria's budget oil benchmark (2026)	About US$64.85 per barrel	Market prices moved substantially above benchmark	Potential additional government revenue
Estimated oil-sector windfall	Normal export earnings	About US$4 billion reported gain for Nigeria and oil firms	Higher income from crude exports
Possible prolonged-conflict revenue scenario	Regular oil revenue projection	Up to ₦30.2 trillion projected windfall	Increased fiscal opportunity

Table 1, shows the summary of the estimated data generated on various relevant indicators, situation before the conflict, situation during the conflict and their effects on Nigeria's economy.
The increase in crude oil income from about US$70.14 per barrel average to about US$116.84 per barrel reported average during the conflict period, affected Nigeria's government revenue positively. Higher oil receipts could improve the government's ability to finance infrastructure, public services, debt obligations, and development programs. Increased foreign exchange earnings from crude exports could also reduce pressure on Nigeria's foreign exchange market.

However, the income increase had limitations. Higher international oil prices also contributed to higher domestic energy costs. Since many Nigerian businesses depend on petroleum products for transportation and electricity generation, increased energy prices raised production costs and contributed to inflationary pressures.

Another challenge is that Nigeria could not automatically capture the entire oil price gain. Production capacity, operational challenges, crude-backed financing arrangements, and the cost structure of the petroleum sector influence the actual amount of money received by government. Some reports noted that not all increased oil earnings translated directly into available public revenue.

The sustainability of the increased income is also uncertain because oil prices are influenced by global political conditions. As diplomatic efforts reduced tensions and expectations of reopening major supply routes increased, oil prices began declining from conflict-driven highs. This suggests that the additional revenue may be temporary rather than a permanent improvement in Nigeria's income base.

Therefore, the US–Israel–Iran conflict generated a short-term increase in Nigeria's crude oil income through higher international oil prices. The available evidence indicates that Nigeria benefited from increased export earnings and potential fiscal gains. However, the long-term economic benefit depends on whether the revenue is effectively managed and invested in productive sectors. Without economic diversification, Nigeria remains vulnerable to future global oil price shocks.

Effect on Nigeria's Government Revenue: The most immediate effect of the increased crude oil prices was the growth in petroleum-related income. Higher international prices meant that each barrel of Nigerian crude oil generated more revenue than originally projected. Reports suggested that Nigeria experienced significant oil revenue gains during the conflict period, with estimates indicating multi-billion-dollar windfalls for Nigeria and oil producers. (NESG, 2026)

The increased revenue created opportunities for government to finance infrastructure, reduce fiscal pressure, and support public programs. However, increased income also creates a responsibility problem. If the additional revenue is spent mainly on consumption rather than investment, the long-term benefit may be limited.

Effect on Foreign Exchange Earnings: Crude oil exports are a major source of foreign exchange for Nigeria. Increased oil prices improved the value of petroleum exports and increased the inflow of foreign currency. Improved foreign exchange availability can support exchange rate stability, increase import capacity, and reduce pressure on government finances.

Nevertheless, foreign exchange benefits may be temporary because oil markets are unpredictable. When geopolitical tensions reduce, oil prices may decline as supply conditions improve. Recent market developments showed oil prices falling after progress toward easing US–Iran tensions and reopening major shipping routes. (Reuters, 2026)

Effect on Economic Development Financing: Higher oil income provided Nigeria with additional financial resources that could support development projects. Government could increase spending on infrastructure, transportation, energy, education, and health. If properly managed, oil revenue can contribute to economic transformation by supporting productive sectors. However, dependence on temporary oil windfalls may discourage long-term economic diversification. Sustainable development requires investment in sectors that continue generating income after oil prices decline.

Effect on Inflation and Cost of Living: Although increased oil income created benefits, it also produced economic pressures. Higher global energy prices affected fuel costs, transportation expenses, and production costs. Nigeria's economy is sensitive to fuel price changes because many businesses depend on petroleum products for transportation and power generation. Therefore, while government revenue increased, households and businesses could experience reduced purchasing power because prices of goods and services rise.

Methodology

This paper adopts a qualitative research design based on secondary data analysis. Information was obtained from economic reports, energy market analyses, policy documents, and published studies.

The study uses descriptive analysis to examine the relationship between the US–Israel–Iran conflict, crude oil prices, and Nigeria's income generation.

The independent variable in this study is the increase in crude oil income generated from Nigeria's petroleum exports during the 2026 international conflict. The dependent variable is Nigeria's economic development, measured through government revenue, foreign exchange earnings, investment capacity, inflation, and economic growth. The relationship between the variables occurs through oil price changes, export earnings, fiscal capacity, and domestic economic conditions.

Discussion of Findings

The available evidence requires a careful distinction between income generated from the oil price increase caused by the US–Israel–Iran conflict and actual expenditure of that specific windfall. As of the available public information, the Nigerian government has discussed using increased oil receipts within the wider 2026 fiscal framework, but it has not published a detailed statement saying 'this exact amount of conflict-related oil windfall was spent on this exact project.' Therefore, the examples below refer to expenditure areas financed by increased public revenue and the 2026 budget framework, rather than a formally separated 'war windfall account.' (NNESG, 2026)

The first major area of expenditure is debt servicing and fiscal obligations. A significant portion of Nigeria's revenue is committed to servicing domestic and external debts. The 2026 fiscal plan projected debt servicing costs of about ₦15.52 trillion, meaning that additional oil-related income helped create fiscal space for meeting government financial obligations. (Reuters, 2026) The government has also undertaken reforms to ensure that oil and gas revenues flow more directly into public accounts through the Federation Account, strengthening the ability to fund national expenditure. (Reuters, 2025).

The second area is infrastructure development. The 2026 budget framework placed strong emphasis on capital expenditure, with about ₦26.08 trillion allocated for capital projects. These include transportation infrastructure, public works, energy projects, and other development programs, (NFBR, 2026). Increased oil receipts were expected to support government capacity to finance such projects because crude oil revenue remains a major contributor to federal income. (FGN, 2026)

The third area is defense and security expenditure. The 2026 budget proposal allocated approximately ₦5.41 trillion to defense and security. This spending covers military operations, internal security, equipment, and security-related programs. Higher revenue availability from oil earnings can reduce pressure on government borrowing for such obligations, (FGN, 2026).

Another area is education and human capital development. The 2026 budget proposal allocated about ₦3.52 trillion to education. This includes funding for universities, schools, skills development, and educational infrastructure. Increased revenue from crude oil earnings can support these allocations by improving government resources, (NESG, 2026).

The health sector is also a major recipient of public expenditure. The 2026 budget proposal allocated about ₦2.48 trillion to health, covering healthcare delivery, facilities, and public health programs. The availability of higher petroleum income provides additional fiscal support for maintaining these commitments, (NFBR, 2026).

Another important expenditure area is support for economic stability and foreign exchange management. The increase in oil earnings improved foreign exchange inflows, giving authorities more room to stabilize the currency market and support macroeconomic management. Some projections linked higher oil receipts from the Middle East crisis to improved external reserves and stronger fiscal capacity, (PwCN, 2026).

The government has also used additional fiscal space to support energy sector stability and domestic supply conditions. Increased oil production and revenue have been associated with efforts to maintain fuel availability and reduce pressure from energy shortages. Reports indicated that higher oil output provided additional fiscal space while reforms continued in the energy sector, (Reuters, 2026).

However, there are important limitations. The additional income generated from higher oil prices was not entirely available as free spending money. Nigeria still faced budget deficits, debt obligations, and inflationary pressures. The 2026 fiscal framework projected revenue of about ₦34.33 trillion against expenditure of over ₦58 trillion, showing that even with higher oil receipts, government finances remained under pressure, (FGN, 2025/2026).

In summary, Nigeria's increased crude oil income linked to the US–Israel–Iran conflict was mainly absorbed into broad government expenditure priorities: debt servicing, infrastructure, defense, education, healthcare, foreign exchange stabilization, and fiscal management. The key economic question is not only how much revenue was generated, but whether the revenue was converted into productive investment capable of improving long-term economic development. (Naira-metrics)

Conclusion

The analysis shows that the 2026 conflict produced a significant effect on Nigeria's crude oil income generation. The rise in global crude prices increased export earnings and created a temporary fiscal advantage.

However, the benefit was not purely positive. Higher energy prices created inflationary pressure, increased domestic costs, and affected household welfare. The conflict demonstrated both the advantage and risk of Nigeria's oil-dependent economy. External events can increase national income quickly, but they can also expose economic weaknesses. The long-term value of the revenue depends on whether Nigeria converts the temporary income into sustainable investments.

The additional income strengthened government revenue and foreign exchange earnings and created opportunities for development financing. However, the gains were accompanied by inflationary pressures, higher energy costs, and continued dependence on petroleum markets. The study concludes that oil windfalls from international conflicts should be viewed as temporary opportunities rather than permanent solutions. Nigeria must use such income to support economic diversification, industrial growth, and long-term financial stability.

Recommendations

Nigeria should establish stronger mechanisms for saving and investing excess oil revenue during periods of high prices. Government should direct additionally oil earnings toward productive sectors such as manufacturing, agriculture, infrastructure, and technology.

Nigeria should reduce dependence on crude oil by expanding non-oil sources of income. Policies should be developed to control inflation and protect citizens from the negative effects of global energy shocks. The country should strengthen transparency and accountability in the management of petroleum revenue.

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