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Implications Of Fuel Subsidy Removal On The Nigerian Economy

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ABSTRACT
Using the discourse analysis methodology, this study explores both the macroeconomic and microeconomic consequences of the 2023 fuel subsidy removal in Nigeria. On the positive side, the elimination of fuel subsidies is expected to release financial resources for investment in other critical sectors, encourage domestic refinery production, reduce reliance on imported fuel, boost employment, and enable the government to allocate funds toward vital public infrastructure. Additionally, it may help lower the budget deficit, potentially create a budget surplus in the near future, reduce government borrowing, combat corruption linked to subsidy disbursement, promote competition, strengthen domestic refineries, and ease pressure on the exchange rate. Conversely, the policy also presents several short-term drawbacks, including a possible decline in economic growth, heightened inflation, increased poverty levels, rising fuel smuggling and crime rates, elevated petroleum product prices, and job losses particularly in the informal sector. In light of these challenges, it is recommended that the government thoroughly assess the impact of the subsidy removal on both individuals and businesses and implement palliative measures and economic relief programs to mitigate its adverse effects.
Keywords: fuel subsidy removal, Nigeria, economic growth, poverty, unemployment, corruption, fiscal deficit.

1. INTRODUCTION

Fuel subsidy refers to a government intervention that lowers the market price of fossil fuels, allowing consumers to pay less than the prevailing market rate (Ovaga & Okechukwu, 2022). This policy ensures that the cost per litre of petroleum products remains below market levels for end-users. Globally, the implementation of fuel subsidies has sparked intense debate due to their substantial financial cost and implications for citizen welfare and national fiscal health. According to the International Energy Agency, global fossil fuel subsidies amounted to approximately $1 trillion in 2022, a sharp increase from $325 billion in 2018. This figure notably exceeds the total value of global aid—estimated at $204 billion in 2022—and even surpasses the combined government revenues of developing nations. As a result, there have been increasing calls for the elimination of fossil fuel subsidies, arguing that the resources saved could be redirected toward humanitarian support for the poor and vulnerable in developing regions (Couharde & Mouhoud, 2020; Ozili & Ozen, 2021).

Nevertheless, removing these subsidies remains controversial. Proponents argue that subsidies serve as indirect aid by making energy more affordable for low-income populations. Despite this perspective, a growing body of literature outlines the negative externalities of fuel subsidies, including increased air pollution and greenhouse gas emissions (Sweeney, 2020), road congestion (McCulloch, Moerenhout & Yang, 2021), a rise in traffic accidents and premature deaths (Parry, Black & Vernon, 2021), foregone tax revenues (Sweeney, 2020), and widening inequality between the rich and the poor (McCulloch,

Moerenhout & Yang, 2021). Despite these drawbacks, many governments remain hesitant to implement fuel subsidy reforms due to potential public backlash. Such reforms often lead to higher fuel and electricity prices, which could result in significant hardship for low-income citizens, widespread protests, and even political instability or threats to the existing government.

In Nigeria, fuel subsidies were first introduced in the 1970s following the 1973 oil price shock. Although there was a partial removal of the subsidies in 1986, they have largely remained in place. A notable attempt at full removal occurred in 2012 but was met with nationwide protests, prompting the government to reinstate the subsidy shortly afterward. Since then, subsidy payments have escalated. By 2022, the Nigerian government spent ₦4 trillion (approximately US$6.088 billion) on fuel subsidies, representing 23% of the national budget of ₦17.126 trillion (US$25.87 billion). This level of expenditure proved unsustainable, leading to the government's announcement that fuel subsidies would be discontinued in June 2023. Recent Nigerian literature presents mixed findings on the impact of fuel subsidies. While some researchers highlight their benefits and advocate for increased transparency in their administration, others emphasize the harmful consequences and support their removal. For instance, Omitogun et al. (2021) suggest that eliminating fuel subsidies could reduce carbon emissions. Similarly, Adekunle and Oseni (2021) argue that subsidy removal may curb emissions through decreased energy consumption, though they acknowledge the likelihood of rising energy costs. Asare et al. (2020) advocate for using the revenues saved from subsidy removal to address urgent issues like the COVID-19 crisis and to support long-term economic recovery (Ozili & Arun, 2023).

Conversely, other studies caution against abrupt removal. Umeji and Eleanya (2021) note that despite Nigeria's oil wealth, the fuel subsidy has not led to tangible improvements in living standards. They argue that transparency in utilizing the savings from subsidy removal is critical to mitigate potential negative impacts. Ovaga and Okechukwu (2022) contend that subsidies fuel corruption, with vested interests actively sabotaging efforts to restore domestic refining capacity to maintain fuel importation and personal gain. Omotosho (2020) warns that removing subsidies could heighten macroeconomic instability, leading to increased energy prices and inflation. Furthermore, McCulloch, Moerenhout, and Yang (2021) report widespread public opposition to subsidy reforms, rooted in distrust of the government's capacity for transparent governance. Despite these discussions, there remains a significant gap in the literature concerning the macroeconomic and microeconomic consequences of Nigeria's 2023 fuel subsidy removal. The absence of preparatory palliative measures has raised concerns about the broader implications for the Nigerian economy and its citizens.

This paper seeks to provide a comprehensive assessment of both the macroeconomic and microeconomic effects of the 2023 fuel subsidy removal in Nigeria—Africa's largest economy. It contributes to the existing body of work on the benefits and drawbacks of fuel subsidies (see Omitogun et al., 2021; Adekunle & Oseni, 2021; Asare et al., 2020; Umeji & Eleanya, 2021; Ovaga & Okechukwu, 2022; Omotosho, 2020; McCulloch, Moerenhout & Yang, 2021), as well as to the broader literature on fossil fuels and climate change. Furthermore, it adds to ongoing policy discussions regarding the environmental and developmental implications of fuel subsidy reforms.

2. Related Literature

Nigeria is not unique in its experience with fuel subsidy removal. For example, in 1997, Indonesia eliminated its fuel subsidy in response to the Asian financial crisis. This action led to a sharp increase in domestic fuel prices, triggering widespread protests and violent riots that lasted for weeks and ultimately contributed to the resignation of the Indonesian government in 1998 (Chelminski, 2018). Dartanto (2013) investigated the link between fuel subsidies and fiscal stability in Indonesia from 1998 to 2013, finding that a 25% reduction in fuel subsidies raised the poverty rate by 0.259 percentage points. However, a full (100%) removal of subsidies, accompanied by the reallocation of 50% of the savings to public expenditure, resulted in a 0.277 percentage point decline in poverty. Similarly, Fathurrahman et al. (2017) observed that redirecting subsidy payments to assist low-income households could slow economic growth but enhance social welfare.

Although fuel subsidy removal is often accompanied by pledges to redirect the savings toward targeted reforms, these promises are frequently met with skepticism. In Indonesia, for instance, citizens are reluctant to support such reforms if they believe that government corruption will undermine effective implementation (Kyle, 2018). Several international studies have also explored the broader implications of subsidy removal. Harring et al. (2023) conducted a cross-country analysis and found that public support for subsidy elimination increases when there is transparency and effective use of the fiscal savings. In Malaysia, Chatri (2014) studied the macroeconomic effects of gas subsidy reduction in the power sector and found that it led to higher electricity prices, reduced demand across other sectors, and a subsequent decline in GDP. Antimiani et al. (2023) revealed that fossil fuel subsidies remain prevalent in EU countries, but there are ongoing efforts to remove them and reallocate the funds to accelerate the transition to a decarbonized and sustainable economy.

Similarly, Sampedro et al. (2017) argued that fuel subsidies in the EU—estimated at US$233 billion in 2014, four times the amount directed toward renewables—pose a major obstacle to climate change mitigation by diverting resources away from clean energy. However, their study showed that removing these subsidies would only marginally reduce CO_2 emissions due to a potential shift in consumption from oil to other fossil fuels like coal and gas. Nowag et al. (2021) recommended that state aid could facilitate the gradual elimination of fossil fuel subsidies within the EU. In a global context, Erickson et al. (2017) suggested that phasing out tax incentives and other support measures for fossil fuels could help countries meet G20 climate goals more rapidly. Lin and Li (2012) found that, in China, subsidy removal would have negative domestic externalities but generate positive outcomes for other regions not removing subsidies. In a related analysis, Ouyang and Lin (2014) determined that, although renewable energy subsidies deliver benefits, the economic gains from fossil fuel subsidies in China were even greater, complicating the case for subsidy reform.

3. Microeconomic implications

Positive microeconomic implications

One key positive microeconomic implication of removing fuel subsidies is that the price of petrol, or Premium Motor Spirit (PMS), will be determined by market forces—demand and supply—rather than by government regulations or subsidized pricing (Su et al., 2020). This shift will eliminate the underpricing of petrol and reduce corruption linked to inflated claims of imported fuel under the subsidy regime. By aligning petrol prices with real-time global crude oil market conditions, pricing becomes more transparent and economically efficient. Another benefit is the potential elimination of corruption in subsidy disbursements. Many Nigerians view the fuel subsidy as a channel through which public funds are siphoned off into private foreign accounts (Itumo & Onyejiuba, 2019; Sheyin, 2018). Despite stable international crude oil prices and Nigeria's output of approximately two million barrels per day, the country's external reserves have continued to decline—an issue often attributed to widespread corruption. For instance, some oil marketers might import only fifteen metric tons of petrol but fraudulently report seventy-five metric tons to the Petroleum Products Pricing Regulatory Agency (PPPRA), sharing the inflated subsidy claims with complicit officials. However, once subsidies are removed, such fraudulent practices are less likely, as payments would only be made for the actual volume of fuel imported.

Another positive microeconomic effect is the promotion of competitive pricing. Removing the subsidy introduces a market-driven pricing system that could, over time, lower fuel prices through increased competition (Bagirov & Mateus, 2019). Full deregulation of the petroleum sector encourages efficiency and allows pricing to be determined by market dynamics rather than government intervention. This deregulation would attract new players and investors into the downstream oil sector, breaking the monopoly previously held by the Nigerian National Petroleum Corporation (NNPC) in petrol importation. As more competitors enter the market, petrol prices could fall due to intensified competition. Additionally, subsidy removal may catalyze the revival of Nigeria's domestic refineries. The persistent dysfunction of these refineries has been linked to the existence of subsidies and the associated corruption (Okongwu & Imoisi, 2022). Without subsidies distorting market signals, the government would be

incentivized to implement reforms aimed at rehabilitating local refineries. Reviving these facilities would strengthen domestic oil production, reduce dependence on imports, and bolster local petroleum firms.

Negative microeconomic implications

A major negative microeconomic implication of fuel subsidy removal is the potential rise in poverty, particularly in the short term (Raji, 2018). The immediate aftermath is often characterized by widespread hardship, including increased hunger and financial strain for many households. Without adequate palliatives, individuals may experience reduced disposable income, food shortages, lack of access to medication, and an inability to afford basic education—especially in economically vulnerable regions like Northern Nigeria. The removal disproportionately affects the poor and middle class by reducing their purchasing power. Small businesses, already operating on tight margins, may struggle with higher operational costs and declining sales. If they attempt to pass these costs onto consumers, they risk losing customers or experiencing reduced demand, leading to lower business turnover. Without social safety nets or targeted support, poor and vulnerable populations will bear the brunt of these economic shocks.

Another adverse effect is the potential for widespread protests and social unrest (Houeland, 2020). Sharp increases in fuel prices can provoke public outrage, particularly among low-income households who find themselves increasingly unable to meet basic needs. In extreme cases, prolonged price hikes may trigger civil disobedience or unrest as citizens push back against government policies perceived to deepen inequality.

Additionally, the removal of subsidies could lead to an increase in fuel smuggling. In contrast to the previous situation where subsidized Nigerian fuel was smuggled into neighboring countries like Niger Republic, the high domestic cost of petrol may now incentivize smuggling of cheaper fuel from abroad into Nigeria (Idrisu, 2020). This could be especially prevalent in rural communities where residents are unable to afford petrol at current prices, leading to a rise in the black market trade of fuel.

Rising fuel prices may also contribute to an uptick in crime (Shagali & Yusuf, 2022). As economic hardship deepens, theft of petrol from vehicles, homes, generator tanks, or storage facilities may become more frequent. The financial desperation experienced by many could push some individuals toward criminal activities as a means of survival.

The removal of the subsidy has already caused a significant increase in the price of petroleum products, resulting in decreased demand and smaller purchase volumes. This has narrowed profit margins for small businesses reliant on petrol, especially those in the informal sector. While some argue that competition among petrol marketers will eventually drive prices down, this outcome is uncertain and, for now, remains largely theoretical. In practice, international crude oil prices will continue to heavily influence petrol pricing in Nigeria, meaning high domestic prices are likely to persist in the near future (Raji, 2018).

Lastly, job losses in the informal sector are a likely consequence of subsidy removal (Houeland, 2022). Unlike the formal sector, which often depends on diesel, informal businesses rely heavily on petrol. The steep rise in fuel costs has rendered operations unsustainable for many of these small enterprises, leading to closures and increased unemployment.

4. CONCLUSION

This paper explores the macroeconomic and microeconomic implications of the 2023 fuel subsidy removal in Nigeria, employing discourse analysis as its methodology. The issue of fuel subsidy has long been a contentious topic in Nigeria, with economists and policy analysts divided—some advocating for its removal to enable economic efficiency, while others argue for its retention until affordable alternative energy sources are made available. Despite the divergent perspectives, the removal of fuel subsidy offers several positive macroeconomic benefits. It frees up significant government revenue that can be redirected towards critical sectors such as education, healthcare, and infrastructure. Additionally, it may stimulate the revitalization of domestic refineries, reduce Nigeria's reliance on imported petroleum products, create employment opportunities, and contribute to narrowing the fiscal deficit. These savings can also help stabilize the exchange rate, reduce government borrowing, and potentially generate a budget surplus in the long run.

On the downside, the removal of fuel subsidy carries some negative macroeconomic consequences, such as reduced economic growth and increased inflationary pressures. Similarly, the policy shift has both positive and negative microeconomic effects. On the positive side, it introduces a market-driven pricing structure, reduces corruption linked to subsidy payments, promotes competition in the petroleum sector, and may encourage investment in domestic refining. However, the negative microeconomic effects include an increase in poverty levels, higher fuel prices, job losses in the informal sector, a potential surge in crime and fuel smuggling, and the risk of social unrest due to public dissatisfaction.

In conclusion, the paper recommends that the Nigerian government take proactive steps to mitigate the adverse effects of the subsidy removal on individuals, households, and businesses. This can be achieved through comprehensive palliative measures, including wage increases for civil servants, monetary support for low-income households, and the implementation of social protection schemes such as unemployment benefits and cash transfers. Furthermore, meaningful dialogue with labor unions is essential to reach a balanced resolution that aligns with both government objectives and public welfare. The ultimate success of the fuel subsidy removal will depend on how effectively the government utilizes the resulting fiscal savings and the tangible outcomes it delivers for the Nigerian people.

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