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Fuel Subsidy Removal and Economic Degradation in Nigeria.

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Abstract: *Fuel subsidy is the government intervention to subsidized fuel for domestic consumption to reduce the price. The immediate effects of fuel subsidy removal in Nigeria included sharp increases in petrol prices, transportation costs, inflation, food prices, and production costs across sectors of the economy. Household purchasing power declined significantly, leading to worsening poverty and reduced living standards. The primary Objective of the study is to examine the effect of fuel subsidy removal on economic degradation in Nigeria. The study adopted Welfare Economics Theory as its theoretical framework. Ex-post Facto research design was used for the research where only secondary sources of data were utilised. The study found out that removal of fuel subsidy in Nigeria significantly increase inflation particularly higher transportation costs and increase production expenses due to increase in price of petrol. Also, that fuel subsidy removal significantly increase poverty in Nigeria through higher inflation and declining household welfare leading to abject poverty, it also led to increase in production and operations cost for business, particularly manufacturing firms and small enterprise. It equally affected business turnover and employment opportunities in urban Nigeria. The study further recommended implementation of subsidy reforms and fiscal interventions to reduce inflationary pressures, invest subsidy savings in infrastructures and introduce a transparent social and empowerment programmes and inject the surplus money realize as a result of subsidy removal into the economy to bring about rapid economic growth of Nigeria.*

Key words: Fuel subsidy, Economic Degradation, Inflation, Poverty, Nigeria.

1.Introduction

Fuel subsidy is the government intervention to subsidized fuel for domestic consumption to reduce the price. Fuel subsidy is not new to Nigerians for several years before it was completely removed by the current administration of President Bola Ahmed Tinubu.

According to Aniemeke (2024a.). Fuel subsidy in Nigeria originated in the early 1970s following the global oil price shocks, when the Federal Government introduced price controls on Premium Motor Spirit (PMS) to make petroleum products affordable and support economic development. Although initially intended as a temporary welfare intervention, the subsidy gradually became a permanent fiscal policy due to political considerations and public resistance to deregulation. Successive administrations, including those of Ibrahim Babangida, Olusegun Obasanjo, Goodluck Jonathan, Muhammadu Buhari and Bola Ahmed Tinubu, attempted either partial or complete subsidy removal with varying degrees of success. The most significant reform occurred on 29 May 2023, when President Tinubu announced that "fuel subsidy is gone," marking the formal commencement of full deregulation of the downstream petroleum sector. Recent studies argue that decades of subsidy payments distorted market efficiency, encouraged corruption, fuel smuggling, and discouraged investment in domestic refining.

Monday & Nlekerem (2025) reported that, Successive Nigerian governments justified fuel subsidy primarily as a social welfare policy designed to cushion citizens against rising energy costs and improve living standards. Subsidies were expected to lower transportation costs, reduce inflationary pressures, stimulate industrial production, and promote equitable income distribution. Governments also viewed subsidized fuel prices as compensation to citizens for Nigeria's abundant crude oil resources. However, recent literature indicates that subsidy administration became vulnerable to rent-seeking, corruption, and inefficiency, with a substantial proportion of benefits captured by fuel marketers, smugglers, and high-income households rather than the poor. Consequently, the policy evolved from a welfare instrument into a major fiscal liability.

Aniemeke (2024a.) revealed that, fuel subsidy became one of Nigeria's largest recurrent expenditures. Between 2011 and 2022, the Federal Government spent trillions of naira on subsidy payments, thereby reducing fiscal space for investment in infrastructure, education, healthcare, and other productive sectors. Studies report that subsidy payments contributed significantly to rising public debt, budget deficits, and declining government savings. The Nigerian National Petroleum Company (NNPC) often deducted subsidy costs before remitting oil revenues to the Federation Account, thereby reducing revenues available to all tiers of government. Recent literature concludes that subsidy financing weakened fiscal sustainability and constrained long-term economic development.

According to Olujobi & Irumekhai (2024a.). Reported that, on 29 May 2023, President Bola Ahmed Tinubu announced the removal of petrol subsidy during his inaugural address, citing the unsustainable fiscal cost of maintaining the policy. Following the announcement, petrol prices rose sharply as market forces determined prices under a deregulated framework. Government officials argued that subsidy removal would improve fiscal stability, attract private investment into refining, eliminate fuel smuggling, and redirect public resources to infrastructure and social development. Nevertheless, scholars argue that the abrupt implementation without comprehensive social protection measures intensified economic hardship and generated widespread public dissatisfaction.

Aniemeke (2024b.) confirmed that, the immediate effects of fuel subsidy removal in Nigeria included sharp increases in petrol prices, transportation costs, inflation, food prices, and production costs across sectors of the economy. Household purchasing power declined significantly, leading to worsening poverty and reduced living standards. Small and medium-sized enterprises experienced increased operating costs, while inflation accelerated due to higher energy costs. However, long-term projections suggest that effective implementation of subsidy reforms could improve fiscal sustainability, encourage investment in domestic refineries, reduce fuel smuggling, strengthen public finances, and enhance resource allocation efficiency. The long-term benefits, however, depend largely on institutional transparency, targeted social protection, and sound macroeconomic management.

Ayanlowo et al. (2025) revealed that, ecent empirical studies generally found out that fuel subsidy removal has a statistically significant relationship with economic outcomes in Nigeria. Some studies report improvements in government revenue, fiscal discipline, and market efficiency, most of the studies conclude that the short-run effects have been adverse, including increased inflation, declining household welfare, higher unemployment, reduced real incomes, and lower productivity among businesses. Econometric evidence suggests that subsidy removal contributed to rising cost-push inflation and declining purchasing power, particularly in the absence of effective social safety nets. Although the reform may generate long-term macroeconomic gains through better resource allocation, current evidence indicates that its immediate socioeconomic consequences have contributed to economic hardship, thereby supporting the argument that poorly managed subsidy reforms can accelerate economic degradation.

It is in view of the foregoing challenges encounter as a result of fuel subsidy removal in Nigeria that this study investigated the effect of fuel subsidy removal on economic degradation in Nigeria.

2. Statement of the Problem

Removal of fuel subsidy on 29 may 2023 was received with mixed feelings with a great surprise by Nigerians. Although the motive behind the removal was to reduce corruption in the oil sector, Nigerians complain about the rushing of the pronouncement before assumption in office and without any measures on ground to cushion the immediate negative effects of the removal. The removal of the subsidy has led to increases in the pump price of Premium Motor Spirit (PMS) popularly known as petrol, resulting in sharp increases in transportation costs, food prices, electricity generation costs, production expenses, and inflation. Many households have experienced declining purchasing power, worsening poverty, unemployment, food insecurity, and reduced living standards.

Despite series of debates for or against the removal of the subsidy, there remains limited comprehensive evidence on the broader dimensions of economic degradation arising from subsidy removal, particularly in relation to inflation, poverty, employment, household welfare, business performance, and economic growth. As it continues to keep Nigerians in confusion as how the removal will become to their own advantage economically because of the continue hardship since the removal of the subsidy. This study therefore seeks to examine the implications of fuel subsidy removal for economic degradation in Nigeria and provide evidence-based policy recommendations.

3.Objective of the Study

The primary Objective of the study is to examine the effect of fuel subsidy removal on economic degradation in Nigeria.

Specifically, the study seeks to:

1.Examine the effect of fuel subsidy removal on inflation in Nigeria.

2.Assess the effect of fuel subsidy removal on household purchasing power.

3.Examine the relationship between fuel subsidy removal and poverty.

4.Investigate the effect of subsidy removal on business productivity and employment.

5.Assess the implication of fuel subsidy removal on Nigeria's economic growth

4. Research Questions

1.What effect has fuel subsidy removal had on inflation in Nigeria?

2.How has fuel subsidy removal affected household purchasing power?

3.What relationship exists between fuel subsidy removal and poverty?

4.How has fuel subsidy removal affected business productivity and employment?

5.What implications has subsidy removal had for Nigeria's economic growth?

5.**Conceptual Clarifications**

Fuel Subsidy

Fuel subsidy refers to a government policy whereby the government pays part of the cost of petroleum products so that consumers purchase fuel at a price below the prevailing international or market price. The primary objectives of fuel subsidy are to reduce the cost of transportation, stabilize domestic prices, improve household welfare, promote industrial productivity, and protect vulnerable citizens from fluctuations in global crude oil prices. In oil-producing countries such as Nigeria, fuel subsidy has historically been regarded as a form of social welfare and a means through which citizens benefit from the country's petroleum resources. However, recent studies argue that prolonged subsidy regimes distort market prices, encourage excessive fuel consumption, promote smuggling across borders, create opportunities for corruption, discourage private investment in domestic refining, and impose significant fiscal costs on government budgets. Consequently, many economists advocate replacing universal fuel subsidies with targeted social protection programmes that are more efficient and fiscally sustainable (Gamette & Oteng, 2024).

Fuel Subsidy Removal (Deregulation)

Fuel subsidy removal, commonly referred to as deregulation of the downstream petroleum sector, is the process through which government withdraws financial support for petroleum products and allows fuel prices to be determined by market forces of demand and supply. Under deregulation, government no longer fixes retail fuel prices but creates an enabling environment for competition among petroleum marketers. The policy is intended to eliminate fiscal waste, reduce corruption associated with subsidy payments, encourage private investment in refining and distribution, improve energy security, and promote efficient allocation of public resources. In Nigeria, full deregulation commenced following the announcement by President Bola Ahmed Tinubu on 29 May 2023. While proponents argue that deregulation improves fiscal sustainability and investment, critics contend that its implementation without adequate social safety nets has contributed to inflation, declining purchasing power, and increased poverty. Recent literature therefore emphasizes that successful deregulation requires complementary policies such as targeted cash transfers, improved public transportation, exchange-rate stability, and transparency in the utilization of subsidy savings (Olujobi & Irumekhai, 2024b.).

Economic Degradation

Economic degradation refers to the persistent deterioration in the performance and overall health of an economy, reflected in declining living standards, increasing inflation, rising unemployment, reduced purchasing power, falling real incomes, weak productive capacity, increased poverty, fiscal instability, and declining economic growth. Economic degradation occurs when economic policies, institutional weaknesses, or external shocks reduce the economy's ability to generate sustainable growth and improve citizens' welfare. In the Nigerian context, recent studies associate economic degradation following fuel subsidy removal with rapid increases in transportation costs, higher food prices, increased production costs, business closures, declining household welfare, and worsening multidimensional poverty. Nevertheless, scholars also argue that these adverse short-term effects may eventually be offset by improved fiscal discipline, greater investment in productive sectors, and enhanced macroeconomic stability if government effectively reinvests subsidy savings and strengthens social protection programmes (Udo & Alabi, 2024).

6.Theoretical Framework

The study adopted Welfare Economics Theory as its theoretical framework. Welfare Economics Theory is a branch of economics that examines how the allocation of resources and distribution of income affect social welfare. The theory seeks to determine the conditions under which economic policies maximize the well-being of society. It provides a normative framework for evaluating public policies by asking whether they improve the welfare of individuals and society as a whole.

The foundations of welfare economics were laid by Arthur Cecil Pigou in 1920 through his seminal book, The Economics of Welfare. Pigou argued that government intervention is justified whenever market outcomes fail to maximize social welfare due to externalities, monopolies, or unequal income distribution. He believed that taxes, subsidies, and public expenditure could correct market failures and improve societal welfare (Pigou, 1920).

The theory was later refined by Vilfredo Pareto in 1906 through the concept of Pareto Efficiency (Pareto Optimality). Although Pareto's work predates Pigou's book, modern welfare economics is generally associated with Pigou because he systematically developed the field. Pareto argued that an allocation is socially efficient if no individual can be made better off without making another individual worse off (Pareto, 1906).

Further developments were made by Nicholas Kaldor (1939) and John Hicks (1939), who introduced the Compensation Principle (Kaldor-Hicks Criterion). According to this principle, a policy can be considered welfare-improving if those who gain could theoretically compensate those who lose and still remain better off, even if compensation is not actually paid (Kaldor, 1939).

Some of the major assumptions of the theory includes: Individuals are rational and seek to maximize their utility, social welfare depends on the welfare of individuals in society, and resources should be allocated efficiently to maximize social welfare. Other assumptions are competitive markets generally promote efficient resource allocation but may fail under certain conditions, government intervention is appropriate where market failures reduce social welfare and public policies should be evaluated based on their overall effect on society's welfare. According to Pigou's framework, government intervention remains necessary after subsidy removal through targeted social protection measures, cash transfers, investments in public transport, and improved healthcare and education. Such interventions can help offset welfare losses and ensure that the long-term benefits of the reform outweigh its immediate social costs (Pigou, 1920).

Relating to this topic, the theory it explains how fuel subsidy reforms brought hardships to citizens as it affects social welfare through changes in inflation, household purchasing power, poverty, employment, business costs, and income distribution. It also provides a basis for assessing whether the fiscal gains from subsidy removal are sufficient to justify the welfare losses experienced by citizens and underscores the need for effective compensatory policies to protect vulnerable groups.

7.Methodology

Ex-post Facto research design was used for the research where only secondary sources of data were utilised. The secondary sources of data were drawn from Academic Journals, Central Bank of Nigeria (CBN) statistical bulletin, National Bureau of Statistics (NBS) Publications, IMF Reports, World Bank Reports, and Nigeria Midstream and Downstream Petroleum Regulatory Authority Publications. The secondary data was analysed using Qualitative Content Analysis, Analysis of policy documents and Institutional Reports.

8. Effect of Fuel Subsidy Removal on Inflation in Nigeria.

Haruna et al. (2025) reported that fuel subsidy removal significantly increased inflation, particularly through higher transportation costs and increased production expenses. This equally increase hardships and sufferings of the masses in all ramifications without any necessary efforts to cushion the effects of the inflation.

Aniemeke (2024b.) similarly reported that, subsidy removal immediately increased petrol prices, which transmitted into higher inflation through increased transportation and production costs. Although there are improvements in government revenue and fiscal sustainability. Increase in petroleum price which equally resulted to increase in transportation automatically resulted to increase in prices of both finished goods and farm produces and hence inflation and decrease in purchasing power of households.

9. Effect of Fuel Subsidy Removal on Household Purchasing Power in Nigeria.

Datti (2024) revealed that, subsidy removal significantly reduced household purchasing power by increasing expenditure on transport, food, healthcare, and energy while reducing savings. Also, that rising living costs adversely affected household welfare. Reduction in household purchasing power will lead to inadequate supply of food quantity and quality as well as other domestic family needs. This trend can affect marriages and relationship between parents and their direct and indirect dependents.

Addah (2025) also added that, fuel subsidy removal significantly reduced purchasing power through increased food prices, transportation costs, and declining real income. Similarly, low-income households were disproportionately affected. Declining in purchasing power of households is devastating and embarrassing at the same time because breadwinners feel insecure if their income become inadequate to solve immediate family basic needs.

10. Relationship between Fuel Subsidy Removal and Poverty in Nigeria.

Obele (2025) confirmed that, subsidy removal significantly increased poverty through higher inflation and declining household welfare leading to abject poverty that may lead to nutritional related disease. Equally, long-term poverty reduction could be achieved if subsidy savings were invested transparently in infrastructure and social programmes that can assist in poverty reduction.

Okorie and Wesseh (2024) also added that that subsidy removal reduced household welfare in the short run but that targeted government transfers substantially mitigated poverty and protected vulnerable households. This is to say fuel subsidy removal automatically translate to poverty in Nigeria hence the need for adequate measures like direct transfers to vulnerable households as well as increase in welfare and salaries of civil servants.

11. Effect of Subsidy Removal on Business Productivity and Employment in Nigeria.

Aniemeke (2024b.) reported that fuel subsidy removal increased production and operating costs for businesses, particularly manufacturing firms and small enterprises. Higher energy and transportation costs reduced business profitability and constrained employment growth in the short run. Increase in production cost is devastating as citizens loss their purchasing power will lead to low patronage hence reduction of workers in the private sector leading to increase in unemployment.

Datti (2024) also reported that increased household expenditure following subsidy removal reduced consumer demand, thereby affecting business turnover and employment opportunities in urban Nigeria. Also, that declining purchasing power weakened business performance and reduced firms' capacity to create jobs. The effects of fuel subsidy removal affect business productivity negatively as a result it will lead to loss of jobs or inability to employ more workers in Nigeria.

12. Implications of Fuel Subsidy Removal on Nigeria's Economic Growth.

Obele (2025) found that although fuel subsidy removal generated significant short-term inflation and hardship, it created opportunities for improved fiscal sustainability, better public investment, and stronger long-term economic growth if subsidy savings were efficiently managed. Also, transparent governance and investment in productive sectors as prerequisites for realizing these benefits. The initial implication is devastating to economic growth of Nigeria but if the money realised is injected into the economy it will stabilize in future.

Aniemeke (2024b.) also concluded that fuel subsidy removal enhanced fiscal space by reducing government expenditure on subsidies and increasing resources available for infrastructure and development. On the other hand, long-term growth benefits depend on prudent fiscal management, effective monetary policy coordination, and adequate social protection to cushion vulnerable groups. Proper use of the money recover from subsidy will stabilize the economy but any contrary action will affect economic growth of Nigeria negatively.

13. Conclusion.

From the foregoing, the research concluded that removal of fuel subsidy in Nigeria significantly increase inflation particularly higher transportation costs and increase production expenses due to increase in price of petrol. Also, subsidy removal has reduced house hold purchasing power by increasing expenditure on transportation, food, health care and energy while reducing savings. Also, low-income households were disproportionately affected. Also, the study concluded that fuel subsidy removal significantly increase poverty in Nigeria through higher inflation and declining household welfare leading to abject poverty.

Similarly, fuel subsidy removal led to increase in production and operations cost for business, particularly manufacturing firms and small enterprise. It equally affected business turnover and employment opportunities in urban Nigeria. It is also concluded that fuel subsidy removal generated significant short-term inflation and hardship, it created opportunities for improve fiscal sustainability and better public investment. It also enhanced fiscal space by reducing government expenditure on subsidies and increase resources available for infrastructure and development.

14. Recommendations

In view of the foregoing, it is recommended as follows:

1.There is need for implementation of subsidy reforms and fiscal interventions to reduce inflationary pressures. And also need for stronger coordination between fiscal and monetary authorities to contain inflation.

2. There is need for government interventions as well as strengthening social safety nets.

3. There is need to invest subsidy savings in infrastructures and introduce a transparent social and empowerment programmes targeting vulnerable households that can reduce poverty as well as increase minimum wage for workers both in public and private sectors.

4. There is need to harness the benefits of deregulation which could attract investment into the petroleum sector and improve productivity.

5. There is need to inject the surplus money realize as a result of subsidy removal into the economy to bring about rapid economic growth of Nigeria.

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