



FUEL SUBSIDY REMOVAL AND MACROECONOMIC PERFORMANCE IN NIGERIA

Ejime Herbert Aniemeke

Economics Department, Nile University of Nigeria.

Email: ejimeherbert@gmail.com

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ABSTRACT: *The government of Nigeria removed fuel subsidy on the premise that fuel subsidy is a drain on government finances, causes macroeconomic instability, and generates adverse social welfare in the country. The objective of this paper is to examine the effect of fuel subsidy removal on macroeconomic performance in Nigeria. The paper adopts a desk review method and obtains secondary data from the documents of reputable organizations such as the Central Bank of Nigeria, the National Bureau of Statistics, and the Nigerian National Petroleum Company Ltd. Descriptive statistics was employed for the analysis of data. The study found out that the removal of fuel subsidy resulted in the increase of premium motor spirit price across the country generating inflationary trend. It improved revenue generation for government expenditure, curtailed cross border smuggling and corruption inherent in the downstream sector of the petroleum sector. It was based on these findings that the paper recommends a proper coordination of the fiscal policies and the Central Bank of Nigeria to effectively manage the macroeconomic effect of the subsidy removal. It is also important for the government to develop an effective communication strategy to engage stakeholders on the necessity for the subsidy removal and put in place an effective palliative measure to alleviate the attendant adverse conditions that it generated.*

KEYWORDS: Macroeconomic performance, premium motor spirit, fuel subsidy.

JEL classification: Q32, Q43, Q48



INTRODUCTION

Oil has played a significant role in the growth of the Nigerian economy, given its increasing contributions to Gross Domestic Product (GDP) since the 1960s. In 2023, it contributed 6.21% to GDP, 90% of foreign exchange earnings, 80% of government revenue, and 80% of export trade (NBS, 2023). These benefits are considered limited due to the existence of fuel subsidies that are considered vital for keeping fuel prices low and not increasing the cost of living, to ensure social stability. However, these subsidies became a huge drain on government finances and the macroeconomy in general in Nigeria (NESG, 2022). It was to ameliorate the welfare and macroeconomic impacts of oil price shocks, that fuel subsidy programmes were implemented in several countries, especially the oil-producing ones, such as Nigeria (Omotoso, 2019). Now, there are calls to reform fuel subsidies by policymakers and the international organizations such as IMF and the WB given its supposed ineffectiveness and implications for fiscal sustainability (Coady et al., 2015; Ebeke & Nguouana, 2015). Badly targeted subsidy programmes are alleged to have worsened macroeconomic problems (KPMG, 2023). There is extant literature on the macroeconomic implications of oil price shocks and fuel subsidies, especially in resource-rich emerging economies (Inegbedion et al., 2020). Consequently, some focused on the potential impacts of fuel subsidy reforms on the domestic economies of oil-producing countries (KPMG, 2023; NESG, 2022; PWC, 2023; Breton & Mirzapour, 2016; Dennis, 2016). This study follows that trend by examining the case of Nigeria.

The fuel subsidy regime in Nigeria followed the implementation of the Structural Adjustment Programme (SAP) adopted by the country in 1986, as demanded in the conditionality of the International Monetary Fund (IMF), which is now an opponent of it. Half-hearted attempts at a gradual removal of petroleum subsidies by the government have had significant implications on fuel prices and transport costs and attendant increases in prices of other goods with implications for the cost of living, resulting in general strikes generating security concerns. Consequently, the removal of fuel subsidies became an enormous issue that encompasses political, social, and economic effects. On the other hand, in spite of the huge amount of money the Nigerian government spends on fuel subsidy, Nigeria continues to experience fuel scarcity and continues to import fuel as domestic refineries have not been fixed (Uzonwanne et al., 2015). These have adversely affected infrastructural investments in the economy resulting in insignificant improvement in the quality of life for the majority of Nigerians, with 63% (133 million) being multidimensionally poor (NBS, 2023), and another 7.1 million to join after subsidy removal (World Bank, 2023). So, fuel subsidies are assumed to constitute a drain on the country's resources and a source of corruption and government inefficiency, benefitting neighboring counties, rent seekers, and the rich, as opposed to the poor.

The macroeconomic effect concerns the interdependencies of sectors of the economy. Studies confirmed that fuel subsidies impact the economy via inflation, foreign exchange rates, external reserves, economic growth, etc. This is important given their effects on the achievement of the macroeconomic objectives of the country. The majority of the population is against the removal of fuel subsidies due to the distrust between the masses and the government, and lack of information concerning the economic burden of fuel subsidies; worse still is that Nigeria's refineries are non-functional thereby necessitating the continuous importation of refined petroleum, which strains the local currency (NESG, 2023). The need for the removal of fuel subsidies was compelling; a major concern is the issue of fiscal sustainability. Meanwhile,



countries such as Ghana which successfully removed subsidies on fuel in 2003 still experienced a relatively stable economy (Reuters, 2013).

Most key stakeholders joined the IMF and the WB, including the Revenue Mobilization Allocation and Fiscal Commission (RMAFC), and the NNPC agreed that the fuel subsidy regime needs to go, as it is not sustainable in its current form, and it is not achieving its objectives. Hence, the government jettisoned it on 29th May 2023. Given this, this study asks the question: What is the effect of fuel subsidy on the macroeconomic performance of Nigeria since the removal of fuel subsidy? The study will provide useful insights relating to the fiscal sustainability of the subsidy programme as well as how best the government should proceed with the subsequent downstream reforms. The paper is structured as follows: After this section, Section Two deals with a literature review on the concepts of the subject matter, Section Three is on the methodology of the study, while Section Four is on data presentation and analysis. Section Five is on the conclusion and recommendations.

LITERATURE REVIEW

Conceptual Clarifications: Fuel Subsidy and Macroeconomic Performance

A subsidy is a form of financial aid or provision extended to a sector within an economy (institution, business, or individual) generally to promote economic and social policy. (Pass, Davies & Lowes, 2005). Fuel subsidy refers to a government policy that aims to reduce the fuel cost for consumers by providing financial support to keep fuel prices lower than the market rate (NESG, 2019). So, governments typically subsidize fuel prices by compensating oil suppliers or retailers for the difference between the actual cost of production and the reduced price paid by consumers at the pump (Onyeizugbe & Onwuka, 2012). International Energy Agency (IEA, 1999) defines energy subsidy as any government action that concerns primarily the oil sector, that lowers the cost of energy production, raises the price received by producers, or lowers the price paid by energy consumers. The Organization for Economic Co-operation and Development (OECD, 2005) defines a subsidy as “a result of a government action that confers an advantage on consumers or producers, to supplement their income or lower their costs.

Subsidies come in different types and the desired outcome in the economy would determine which type of subsidy scheme the government would implement. Below are some of the different types of subsidy: energy subsidy, direct cash payment and fuel subsidies (UNEP, 2008). The focus of this paper is the fuel subsidy on Premium Motor Spirit (PMS) undertaken by the Federal Government of Nigeria directed to fuel suppliers, that is, the payment of grants for each unit of fuel produced or imported to keep the prices below market levels for consumers that cuts across every sector/social class in Nigeria with a macroeconomic impact.



Rationale for Subsidy Retention

Theoretically, it is believed that subsidies are Pareto-inefficient because they cost more than they deliver in benefits. Ojameruaye (2011) argued that the fact that subsidies are Pareto-inefficient does not necessarily justify their removal or reduction. He said so long as the government imposes consumption tax (value-added tax or sales tax on commodities), it can be argued that the government should also subsidize certain commodities, especially those that are “critical” to the economy and those that benefit the poor more than the rich. Goldstein and Estache (2009) and IEA (2008) provided a discussion of the possible rationale for subsidy. The major ones include: (i) Supporting the poor and improving equity. (ii) Achieving energy security. (iii) Correcting local externalities. (iv) Reducing the emissions of greenhouse gases. (v) Supporting domestic production and associated employment.

According to the synthesis report by the IEA (2001), government intervention, which may involve the use of subsidies, is intended to remedy market failures, either by addressing their causes or by trying to replicate the outcome of a perfect market. Social considerations such as concern for the poor, sick, or otherwise disadvantaged may also provide a rationale for subsidizing fuel. Most governments consider that access to a reasonably priced minimum supply of modern energy services is socially desirable. World Bank (2010) posits that subsidy is retained in an economy for welfare or pro-poor framework. Ojameruaye (2011) presented the following as some of the economic, social, and political reasons the government provides subsidies or subventions to producers, suppliers, or providers of certain products or services. The IMF (2019) noted that when faced with the large oil price increase, many developing countries preferred to stay with a subsidy scheme, or even to increase or re-introduce subsidies or decrease taxes, despite the enormous fiscal burden this represented. Because of potential opposition from beneficiary groups, the government has to take their likely reaction into account in determining the objective of any plan to alter the subsidy level.

The Rationale for Subsidy Removal

According to (KPMG, 2023), the following are considered as the rationale behind the removal of fuel subsidy by the government: (i) It will ensure private sector participation in the importation of petroleum products which will free up the market, empower many Nigerians and allow government to focus on other key sectors of the economy (ii) It will always ensure the ready availability of petrol for all Nigerians as Nigeria will be saturated with petrol and there will be no diversion by marketers (iii) It will curb the greed for higher profits and sabotage by a few players in the oil industry and positively affect the economy (iv) It will ensure competition in the industry and market forces will drive down the price of petrol in the long run as witnessed in the telecoms sector for the benefit of Nigerians. (v) It will permanently banish queues from petrol stations across the nation and free the country from the endless pains and sufferings that come with lining up for fuel.



Cross-Country Experiences of Fuel Subsidy Removal

Onyeizugbe et al. (2012) reported that some developed and developing countries have engaged in fuel subsidy policy reforms. These countries include Argentina, Brazil, Canada, China, Ghana, Senegal, India, Indonesia, Italy, Korea, Mexico, Russia, Spain, France, and the United States. IISD (2010) maintains that once in place, fuel subsidies are extremely difficult to remove. There is no single observed formula for success; country circumstances and changing global conditions are major contributory factors. IISD (2010) recognizes six important reform approaches: research; establishment of reform objectives and parameters; construction of a coherent reform policy; implementation; monitoring, evaluation, and adjustment; and forward movement.

The Ghana case is recorded as a substantial success for the following reasons. Research was conducted to identify those most likely to be impacted by reform; a communication strategy was employed to increase popular support; semi-independent and transparent institutions were established to manage fuel pricing and policies were implemented to reduce impacts on the poor.

It was observed that the Senegalese reform experience substantially achieved its initial objectives. The liquefied petroleum gas (LPG) subsidy programme, which created strong incentives to switch from charcoal to LPG, yielded large environmental benefits. The UNEP (2008) observes that the Senegalese experience with subsidizing LPG demonstrates that rapid switching away from traditional fuels to modern forms of energy does not occur automatically. Palliative measures for the poor were poorly articulated. Additionally, unlike in Ghana, the information and awareness-raising campaign was not properly done. The UNEP (2008) through a simulation studied possible impacts of the reforms and stated that a key conclusion of the analysis for Chile is that removing oil subsidies could have bigger economic and distributional effects than removing coal subsidies. This is mainly because the consumption of oil is much larger than that of coal in Chile.

Macroeconomic Performance

Macroeconomics deals with the performance, structure, behaviour, and decision-making of the economy. That is the aggregate economic variables or measures. Therefore, macroeconomic performance can be referred to as the extent to which desired levels of aggregate economic variables are achieved. It can also be described as how well a country is doing in reaching important objectives or key targets of government policy (Ufoeze, Odimgbe, Ezeabalisi & Alajekwu, 2018). In other words, macroeconomic performance is the degree to which unemployment, inflation, poverty, and inequality are reduced, price instability is corrected, unfavourable balance of payment is addressed to ensure the growth and development of the economy (Olanmi & Olagunju, 2020). The key measures of macroeconomic performance used in this study to analyze the impact of fuel subsidy removal are in line with the macroeconomic objectives of the country. This is reflected in price stability, sustainable government revenue and expenditure, public debt, higher investment levels, inclusive economic growth and development, exchange rate stability, stable inflation rate, control of smuggling and corruption amongst others.



Theoretical Underpinning

Rosenstein-Rodan's thesis or theory of the "Big Push" (1943) is used in this study to gain insight into the underlying logic upon which the government emphasized building the economy. The "Big Push" theory emphasized that a substantial minimum level of investment is required to drive a comprehensive programme of economic development in a developing country (Jhingan, 2012). For the theory, there are three kinds of indivisibility and external economies, namely indivisibility in the production function, indivisibility of demand, and indivisibility in the supply of savings (Jhingan, 2012). In the first kind of indivisibility and external economies, what is important is the social overhead capital. To install this, the economy needs a sizable initial lump sum of investment. "The services of social overhead capital comprising basic industries like power, transport, and communications are indirectly productive and have a long gestation period. These indivisibilities of supply of social overhead capital are one of the primary barriers to development in underdeveloped economies; as such, "a high initial investment in social overhead capital is necessary to pave the way for quick-yielding directly productive investment." They are not supposed to be imported perpetually (Jhingan, 2012).

The second kind is the indivisibility or complementarity of demand. This requires the setting up of interdependent industries. The establishment of industries creates a situation where producers would interact to create a market for their goods. The demand for goods is then complementary and reduces the market creation and encourages the incentive to invest, that is, the indivisibility of demand is only possible when there is a high minimum quantum of investment in interdependent industries. The third kind is the indivisibility in the supply of savings given that investment is determined by the volume of savings. However, this is not easy to achieve due to the rate of low-income one finds in underdeveloped countries like Nigeria. Given these three indivisibilities and the external economies they create, a big push in the form of a minimum quantum of investment is required to set these underdeveloped economies on the path of sustained economic growth. In the context of this study on Nigeria, the removal of the fuel subsidy should create huge financial resources that can be used in investing in the key sectors, thereby also creating interdependence of the Nigerian economy to drive macroeconomic performance for inclusive economic growth.

Empirical Review

Akinyemi et al. (2017) analyzed the impact of refined petroleum subsidy removal on the agricultural sector in Nigeria. The results support a complete removal of fuel subsidies for better performance of the agricultural sector. Olaniyi (2016) investigated the effects of fuel subsidies on transport costs and transport rates in Nigeria. He observed that fuel subsidy is a major tool for enhancing citizen's welfare, especially among middle- and low-income countries but that removal of fuel subsidies significantly influences the factors that determine transport costs and rates, thus leading to higher transport costs and rates. Obo et al. (2017) investigated fuel subsidy removal and the ubiquity of hardships in Nigeria. They opined that the removal of fuel subsidies has dire consequences for the well-being of the people.

Studies have been carried out on examining the implications of fuel subsidies for the Nigerian economy. For instance, Umar and Umar (2013) and Siddig et al. (2014) noted that Nigeria's subsidy regime distorts fiscal planning, encourages inefficient consumption, and increases inequality as richer households benefit more. Siddig et al. (2014) further showed that subsidy



reduction increases the GDP and reduces household income. It has also been shown that fuel subsidy removal in Nigeria could cause inflation and reduce economic welfare (Adenikinju, 2009), hurt economic growth and reduce household income (Ocheni, 2015), and make firms less competitive (Bazilian & Onyeji, 2012). These studies applied either the computable general equilibrium model (Siddig et al., 2014; Adenikinju, 2009), analysis of survey data (Ocheni, 2015), or the narrative approach (Bazilian & Onyeji, 2012).

METHODOLOGY

To investigate the effect of fuel subsidy removal on macroeconomic performance in Nigeria that is associated with the recent fuel subsidy removal, the study adopts a desk review of contemporary literature and obtains secondary data from the documents of the National Bureau of Statistics, Central Bank of Nigeria, Nigeria National Petroleum Company Ltd, and Petroleum Product Pricing Regulatory Authority. The study utilized descriptive statistics to examine the short-term effect on selected macroeconomic variables using the benchmark of the macroeconomic goals of Nigeria. The specific kinds of data that were used for the study include the following: value of fuel subsidy payments, petroleum pump price, real gross domestic product, inflation rate, exchange rate, national debt, external reserve, and government revenue and expenditure that are considered significant for the study (Abdulkareem & Abdulhakeem, 2016; Aigheyisi, 2018).

FINDINGS AND DISCUSSIONS

Effects of Fuel Subsidy Removal on Macroeconomic Performance in Nigeria

Higher PMS Price and Inflation Rate

Nigeria depends heavily on crude oil earnings and imported refined products for production and consumption purposes. The volatility in refined crude oil prices impacts the movement of domestic prices especially downstream PMS prices. So, it is this price that got the first hit in the downstream sector when the fuel subsidy was removed. This shot up the prices of PMS from an official flat rate across the country of ₦189 to a minimum average of ₦500 in the South-West and ₦550 in the North-East. Hence, the removal of petroleum subsidies stimulates increases in the prices of petroleum products and results in increases in transportation costs and prices of other commodities generating an upward inflation trend. This saw inflation increase from 22.79% in June to 23.35% in July as against 22.41% in May (Figure 1). This trend may still increase when palliatives are mentioned and minimum wage is increased, as the productive base will not be able to respond to an increase in demand in the short run. From past experiences, the fear of political resistance to large price increases as a result of fuel subsidy adjustments, coupled with widespread corruption and pressure from interested groups, made the government hesitant to reform fuel subsidies. Now that this has been done, precautionary measures must immediately be put in place to cushion the adverse impact on societal welfare to forestall restiveness among workers and citizens.

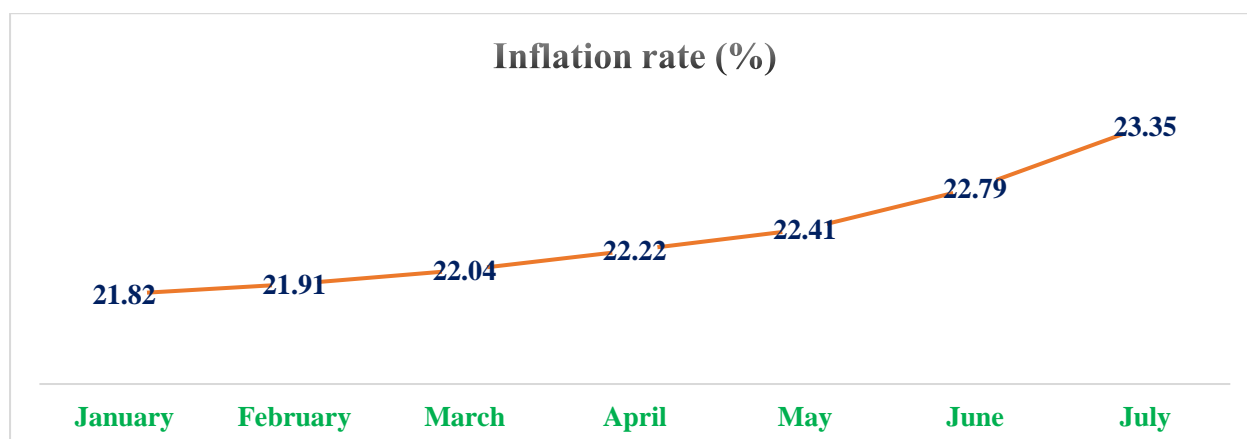


Figure 1: Inflation rate in Nigeria from January–July 2023 (NBS, 2023)

Improved Revenue Generation and Expenditure

Nigeria spent about ₦3.7 trillion on fuel subsidy from 2005 to 2010, and from 2011 to 2014, the expenditure on fuel subsidy started counting in trillions of Naira (Appendix I). This was the period that the country should have made huge gains from the oil windfalls of that period because crude oil hit its highest price of \$144 per barrel. Ironically, it was the time the highest expenditure was made due to the import of refined products as domestic refineries were not functioning. It was a lost opportunity. Subsidy payments constitute a significant burden to the government’s fiscal space, resulting in huge fiscal deficits for the country, that at some point, the government had to secure domestic loans and overdrafts from the Central Bank of Nigeria to finance these subsidies (IMF, 2022).

Subsidy Payment in Nigeria (2005–2022)

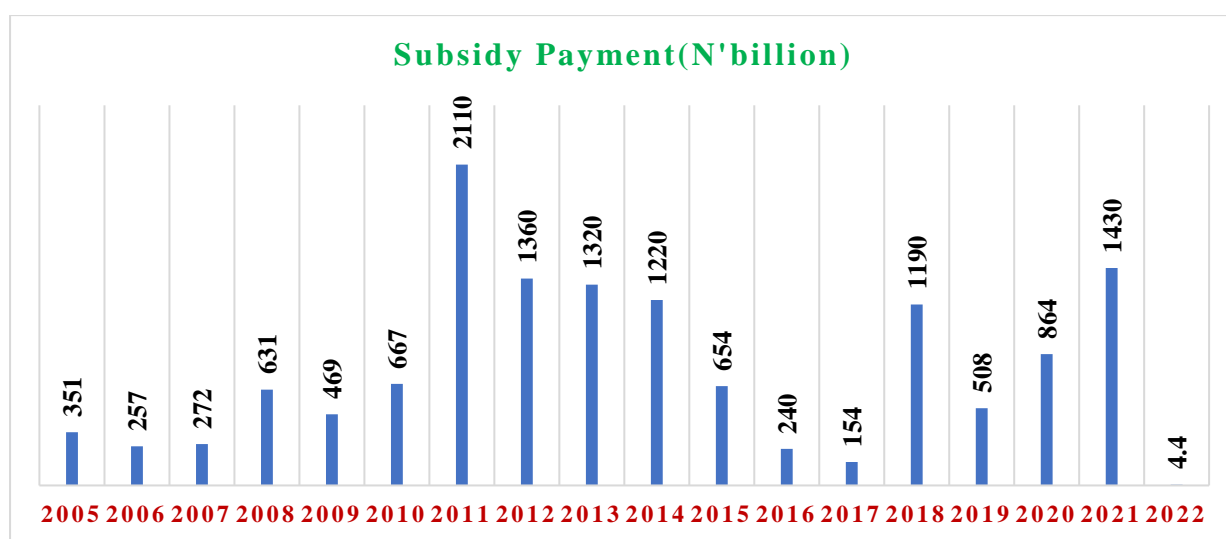


Figure 2: Fuel subsidies payment in Nigeria 2005–2022

Hence, the relationship between crude oil price increase and revenue generation in Nigeria is adverse, while that between crude oil price increase and subsidy payment is positive, thereby inducing huge deficits in the government purse and consequently poor inclusive economic



growth. With subsidy payments gone, the country's fiscal space should be more buoyant. This will provide the leverage for the government to have more funds to execute infrastructure and other development projects. In the two months since the removal of the subsidy, the federation account witnessed an all-time high in inflows of ₦907.05 billion and ₦1.95 trillion in June 2023 and July 2023 respectively from ₦655.93 billion in May 2023.

Although debt figures for the period have not been made public, there is a certainty that this will follow a downward trend, just as it is expected that the country's external reserve will surge, given that this will not be used to pay fuel subsidy claims or to augment deficit financing again, but instead witness inflow that can cater for imports for a reasonable period. The average global public expenditure to GDP is about 30% of GDP. At 13.1% of GDP in 2021, Nigeria's government expenditure ranks quite low globally. Government investment spending on infrastructure in Nigeria is low at 1.7% of GDP, compared to 2.3%, 3.2%, and 6% of GDP in Ghana, Egypt, and Kenya respectively (World Bank 2022).

Improved Investment in the Oil Sector and External Reserve

Oil refinery licenses were issued to private individuals and companies in Nigeria to build refineries in the country; none of these license holders could do so given the regulatory market structure in place as the investors were apprehensive of the cost. This is due to the unfavourable market condition that exists in the face of fuel subsidy. Investors and producers would rather import petroleum products as the government pays these producers according to the quantity imported to keep prices regulated as it is more profitable to them. This sort of subsidy scheme discourages investment in the sector of the country. With the Petroleum Industry Act (PIA) enacted into law in August 2021 and fuel subsidy removed in May 2023, the sector will witness improvement in administration and its investment climate.

An enabling environment for private sector investment in the downstream sector will be created, leading to the development of local refineries and the creation of jobs. This will enhance the country's energy security and reduce dependence on imported petroleum products. Along with the increase in investment flow to the downstream sector, there will be improved tax revenue from the companies, their employees, vendors, and other players across the value chain. The activities of the stock market can be used to mirror this. Since the removal of the fuel subsidy, the Nigerian Exchange Group (NGX) performance matrices of the All-Share index and Market capitalization have trended upward (NGX, 2023) as shown below.

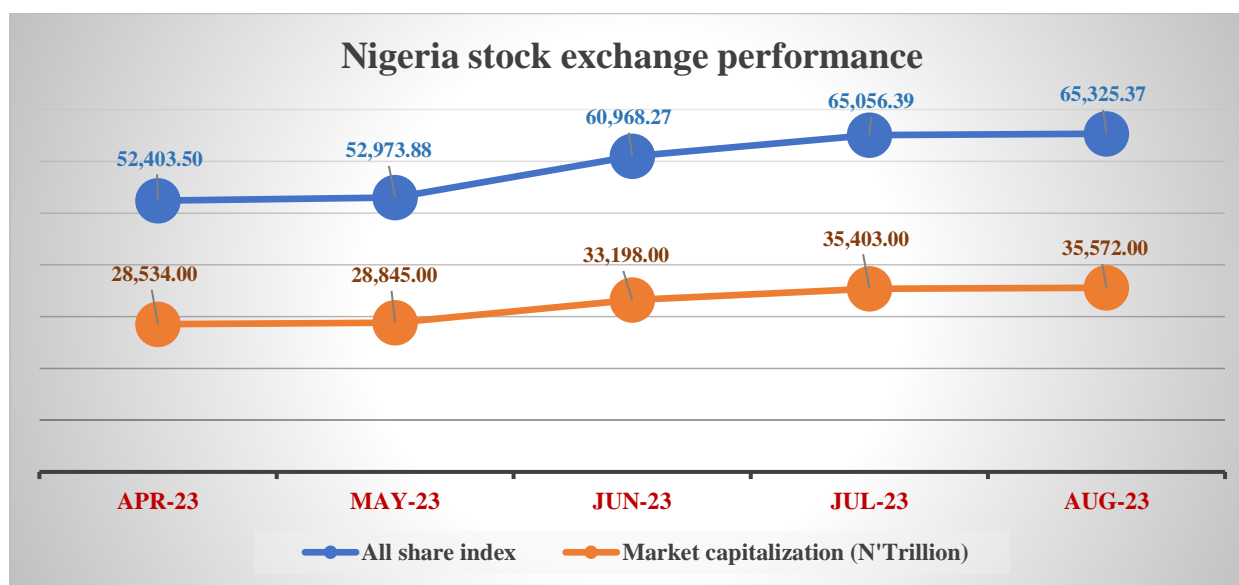


Figure 3: Nigeria Stock Exchange performance April 17, 2023 – August 2023) (NGX, 2023)

Nigeria's sovereign credit rating has been adversely affected by its low revenue, high debt levels, rising deficit, and vulnerability to oil price shocks. Removal of the subsidy will increase the government's revenue, and reduce borrowing and the associated deficit, leading to an improvement in the country's sovereign credit rating and it will lower the cost of borrowing.

Curb Cross-Border Smuggling and Wanton Corruption

Corruption is said to thrive in the oil sector in Nigeria. This is perpetrated mostly by rent-seekers given the weak institutions in the sector. The high level of profitability in the oil and gas sector makes it a primary target for these corrupt people. The NNPC is not exempt or helpful. In 2011, a KPMG forensic audit reported detailed subsidy fraud amounting to N28.5 billion. Another was the Governor of the Central Bank of Nigeria in a 2013 letter stating \$20 billion missing from the sale of crude oil sales (Times, 2013). Others include PPPRA attested to making payments to some oil marketers who failed to import petroleum products (Post, 2015). The fuel subsidy scheme in Nigeria was used as a shield for embezzlement in several cases that are detrimental to the economy of the country.

The porous borders between Nigeria and neighbouring countries also created an enterprise for smugglers who purchase large volumes of petrol at a subsidized rate in Nigeria and sell at market prices in neighbouring countries. With the market-based price now, those lucrative illegal deals will be curtailed, as fuel prices in such countries will increase, and most likely Nigeria's daily demand will decline significantly, including illegal refining, pipeline vandalism, and other criminal activities. Already, within days of the subsidy removal announcement and the adjustment of PMS prices in Nigeria, data from Global Petrol Prices, which tracks the retail prices of refined petroleum products, reveals sharp increases in the petrol prices of neighbouring countries in Chad, Niger, Benin, and Cameroon respectively (KPMG, 2023). Also, Odewale (2023) alleged that Nigeria's daily fuel consumption dropped from 66 m to 40 m, suggestive of actual daily consumption. Also, the black market fuel vendors and commercial drivers in Cameroon, Benin, and Togo who were heavily reliant on petrol smuggled from Nigeria have seen their businesses collapse.

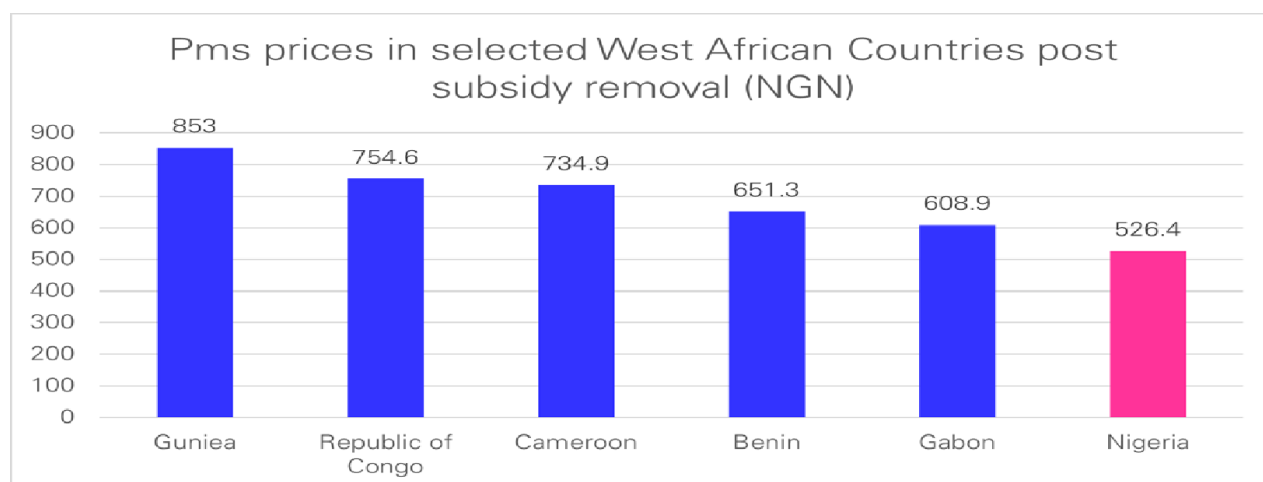


Figure 4: Fuel price in Neighbouring Countries post Subsidy removal in Nigeria (KPMG, 2023)

Improved Economic Growth and Development

The rationale behind the implementation of the fuel subsidy scheme in Nigeria was to ensure that the poor benefit the most from it. Today, however, the middle class and the rich are the major benefactors of the fuel subsidy scheme. The financial resources that would be generated from the removal of fuel subsidies by the government could serve as a driver for an improved standard of living if channeled to social and infrastructural development in key sectors of the economy such as health, education, power supply, and roads that have witnessed stagnation/deterioration over the years, resulting in poor growth (Figure 5 below) along a population growth of about 2.50% in 2020–2022. This would yield economic growth and improve the standard of living in the country as investment in the aforementioned sectors would result in improved healthcare and access to health, access to quality education at an affordable cost, stable power supply, and increased vehicle lifespan.

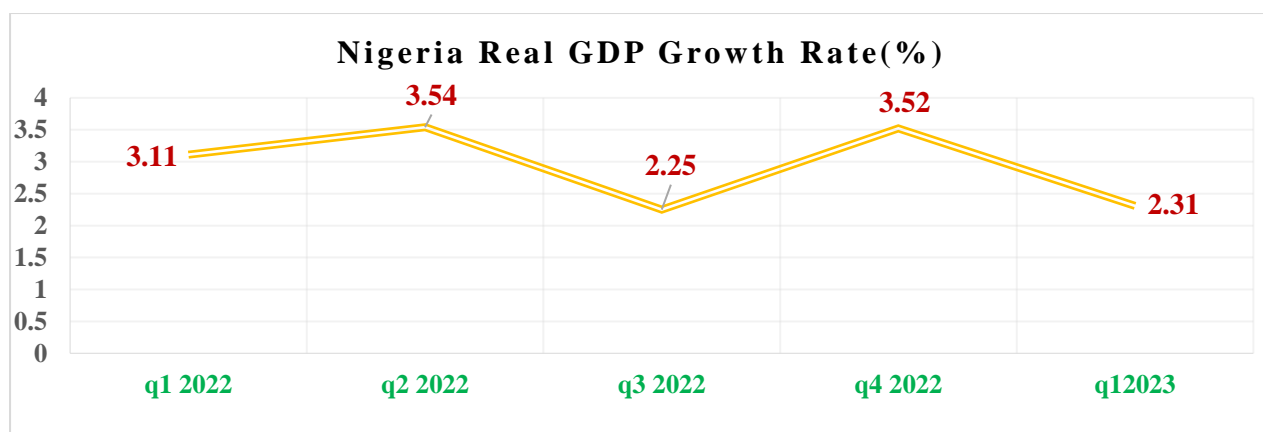


Figure 5: Nigeria’s Real GDP growth rate q1 2022 – q1 2023 (NBS, 2023)



Exchange Rate Management and Balance of Payment Position

Nigeria is a large net importer of refined petroleum products, such that exchange rate management remains a big challenge. Foreign exchange rates continued to show weakness, with the Naira posting a persistent slide against all major currencies, as a result of continuous excess demand relative to supply occasioned by high import bills and oil wealth illusion (Onyeizugbe & Onwuka 2012). This has a devastating impact on real sector investment and job creation as businesses could not achieve incremental productivity and improved employment generation capacity with high interest and volatile exchange rates. These affected the competitiveness of the country's export with implications for the terms of trade and balance of payment. The massive importation of fuel increases the demand for foreign exchange. As cheap, subsidized fuel will no longer be available for smuggling, the reduced volume will translate to a reduction in demand for foreign exchange which will lead to a stronger Naira in due course. This will also reduce imported inflation and its pass-through effect, as the cost of importing petroleum products is a major contributor to inflation in Nigeria.

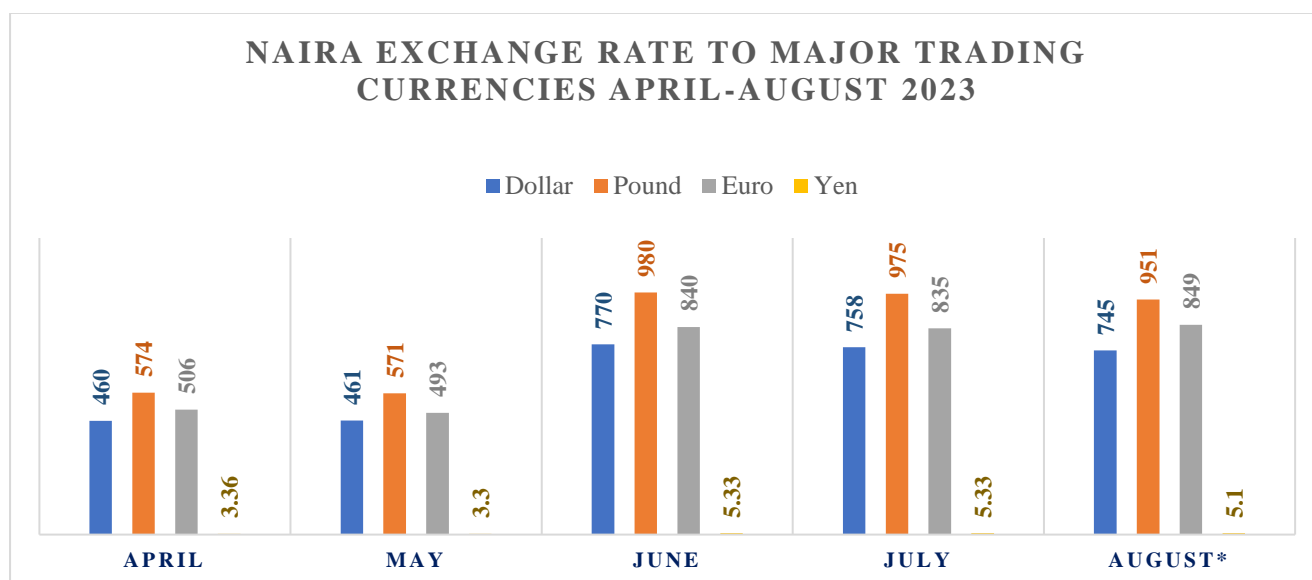


Figure 6: Nigeria's Naira exchange rate to major currencies of the World (CBN, 2023)

Enhanced Public Debt Management

The federal government's fiscal deficit was estimated to have widened in 2022 to 6.2% of GDP, from 6.1% in 2021 and 5.6% in 2020. This deficit has forced it to rely heavily on domestic borrowing, primarily from the Central Bank of Nigeria's overdraft facility (Ways and Means), amounting to just under ₦24 trillion (KPMG, 2023). Indeed, the IMF projects that if the PMS fuel subsidies and rising debt servicing costs continued on their past trajectory, fiscal deficits would remain above 6% of GDP in the medium term, with public debt increasing to about 43% of GDP by 2027. The Director-General of the Budget Office of the Federation also raised some concerns about the nation's rising Debt Service to Revenue ratio, as this worsens Nigeria's elevated indebtedness presently at ₦41.60 trillion (NBS, 2023; Oluwabukola, 2023). Nigeria's revenue receipts are being crowded out by its debt service obligations. In 2016, Nigeria's debt service as a percentage of revenue was 96.8%. While this number decreased to 70.4% in 2019, it increased to a projected 102% in 2022. At this rate, Nigeria's debt service obligations will



increase to as high as 160% of revenue by 2027 (KPMG, 2023). But, with the elimination of fuel subsidies, the country can enhance its debt management better.

IMPLICATIONS TO RESEARCH AND PRACTICE

Oil price shocks have significant implications for output, prices, exchange rates, government revenues, interest rates, and external reserves (Abayomi et al., 2015; Abdulkareem & Abdulhakeem, 2016; Aigheyisi, 2018). However, only a few attempts have been done on fuel subsidies and macroeconomic performance (Siddig et al., 2014; Bazilian & Onyeji, 2012; Adenikinju, 2009), not to talk of the 29 May 2023 inauguration day “sudden death” announcement by the newly elected government in Nigeria. The other studies may no longer be considered contemporary, and this reflects the effect of partial fuel subsidy removal; so it may no longer be reliable. Hence, this study represents a contemporary and comprehensive study on the subject matter.

CONCLUSION AND RECOMMENDATIONS

Nigeria’s PMS fuel subsidy removal on 29 May 2023, after several attempts, had implications for the macroeconomy; it resulted in the increase of premium motor spirit price across the country generating inflationary trend. It improved revenue generation for government expenditure, curtailed cross border smuggling and corruption inherent in the downstream sector of the petroleum sector, etc.

Based on this conclusion, the following recommendations are made:

1. Proper coordination by the fiscal authorities and the Central Bank of Nigeria in managing the monetary aspects of the subsidy removal is key. This is such that the ensuing inflation can be properly managed.
2. It is also important that given the volatility in the global oil sector, and the effect of this on the downstream petroleum sector in Nigeria, institutional framework and policies should be in place to manage this.
3. Government revenue and expenditure profile should be transparent and accountable. This should be tailored towards socio-economic sectors that will drive investments to spur production and create employment, increase income and economic growth.
4. Nigeria can learn from the experiences of other countries that have undergone subsidy reforms such as Ghana, particularly in the areas of stakeholder engagement. Effective communication of the reasons for the removal is key as well as accommodating the deployment of well-targeted safety nets as well as the evolution of sustainable adjustment mechanisms.
5. A multifaceted approach that involves evidence-based identification of the most vulnerable population and a robust palliative administration with built-in controls would provide a more sustainable and long-term solution to the adverse welfare effect.



6. Public Private Partnerships should establish refineries and increase domestic fuel production and forestall supply shortfall that encourage fuel importation and its adverse effect on the economy.

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