



THE IMPACT OF FUEL SUBSIDY REMOVAL ON THE NIGERIAN ECONOMY

Amangwai Josiah Monday (Ph.D.)¹ and Amos Nlekerem (Ph.D.)²

¹Bursary Department, Federal University of Lafia, Lafia, Nasarawa State, Nigeria.

²Department of Political Science and International Relations, University of Abuja, Nigeria.

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ABSTRACT: *This paper traces the history of the discovery of petroleum (oil) in commercial quantities in Nigeria as well as the evolution of fuel subsidy in the country. The paper also attempts to look at the volume of money spent on fuel subsidy by successive governments, especially the last two administrations—of Presidents Goodluck Ebele Jonathan and Muhammadu Buhari. The paper examines the removal of fuel subsidy on May 29, 2023, by the present administration—President Bola Ahmed Tinubu, and looks at the positive and negative impacts of such action. The paper concludes that the objective of fuel subsidy removal in the country has not been achieved. Then, it provides the way forward in mitigating the effects that accompany fuel subsidy removal.*

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INTRODUCTION

Petroleum was first discovered in commercial quantities in Nigeria in 1956 at Oloibiri, a small community in the Niger Delta region, located in present-day Bayelsa State. The discovery marked a significant milestone in Nigeria's economic history, transitioning the country towards an oil-dependent economy. The exploration leading to this discovery was conducted by Shell D'Arcy (now Shell Petroleum Development Company of Nigeria), which was granted an exploration license covering a vast area of Nigeria. The successful drilling at Oloibiri ended several decades of unsuccessful exploration by various companies and initiated Nigeria's journey as a major oil-producing nation in the world. Following the discovery of oil, production began in 1957, and by 1958, Nigeria had started exporting crude oil, significantly impacting its economy and positioning it as a key player in the global oil industry.

A subsidy is a form of financial assistance provided by the government or other organizations to support a particular industry, business, or individual. Subsidies are aimed at promoting economic development, stability, and social welfare by reducing production costs, increasing competitiveness, encouraging investment, supporting research and development as well as providing essential services. Fuel subsidy in Nigeria is therefore, the financial assistance provided by the Nigerian government to its citizens who use Premium Motor Spirit (PMS) which affords them the ability to buy the product at a reasonably reduced price. The fuel subsidy story in Nigeria has a long history dating back to the 1970s during the oil boom. The government introduced subsidies on key commodities like petrol and kerosene as well as diesel to cushion the effects and impact of price fluctuations on the citizens. Fuel subsidies have been a significant component of Nigeria's fiscal policy since their introduction, aimed at making petroleum products affordable for its citizens. Over the decades, the Nigerian government has expended substantial sums on these subsidies, with expenditures varying across different administrations. Initially, the subsidy programme was successful, benefiting the Nigerian people and supporting economic stability. However, in the course of this paper, we will know whether fuel subsidy has benefitted the generality of the Nigerian people or not.

Expenditures on Fuel Subsidy in Nigeria in the Last 13 Years

Fuel subsidies have been a significant component of Nigeria's fiscal policy since their introduction in the 1970s aimed at making petroleum products affordable for its citizens. Over the decades, the Nigerian government has expended substantial sums on these subsidies, with expenditures varying across different administrations. However, we shall give a breakdown of fuel subsidy expenditures in the last thirteen years during the administrations of Presidents Goodluck Jonathan and Muhammadu Buhari from 2011 to 2023.

Goodluck Jonathan Administration (2010–2014)

2011: The government spent approximately ₦2.19 trillion on fuel subsidies.

2012: Following the announcement of the government's intention to remove the fuel subsidy, which resulted in public protests the subsidy was reinstated, with expenditures amounting to ₦1.32 trillion.



Muhammadu Buhari Administration (2015–2022)

2015: Subsidy payments were around ₦654 billion.

2016–2017: The government claimed to have removed subsidies; however, under-recovery costs (indirect subsidies) persisted, with the Nigerian National Petroleum Corporation (NNPC) shouldering these expenses. The amount expended was not made public as a subsidy.

2018: Under-recovery costs were reported to be approximately ₦730.9 billion.

2019: The NNPC reported under-recovery costs of about ₦1.5 trillion.

2020: Due to the global oil price crash, subsidy payments were reduced with estimates of around ₦134 billion.

2021: Subsidy payments increased again, with estimates ranging between ₦1.03 trillion and ₦1.2 trillion.

2022: The National Assembly approved a supplementary budget, raising the subsidy allocation to ₦4 trillion. This expenditure accounted for over 24% of Nigeria's total expenditure that year.

From the above expenditures under the period of thirteen years, the country had spent about ₦11 trillion on fuel subsidies.

Bola Tinubu Administration (2023–Present)

2023: On assumption in office in May 2023, President Bola Tinubu announced the removal of fuel subsidies, stating that the country could no longer sustain the expenditure.

The Impact of Fuel Subsidy Removal in Nigeria

Fuel subsidy removal in Nigeria will be looked at, from the angles of the price before the removal, the prices after the removal as well as the positive and negative impacts of its removal on the Nigerian economy. Over time, fuel subsidy policies in Nigeria underwent significant transformations due to changing economic conditions, political factors, and international oil prices. The government institutionalized the subsidy in 1977 through the Price Control Act, which regulated the prices of petroleum products, including petrol.

When President Bola Ahmed Tinubu announced the removal of fuel subsidy during his inaugural speech on May 29, 2023, there was an immediate increase in the premier motor spirit (PMS) prices between ₦488 and ₦555. The removal has generated a lot of arguments for and against the action and whether the removal was necessary. The price of fuel per litre in Nigeria before President Bola Ahmed Tinubu removed the subsidy was ₦198. This price was consistent across Nigerian National Petroleum Corporation (NNPC) outlets before the subsidy removal. After the removal, NNPC adjusted retail prices to range between ₦488 and ₦555 per litre, depending on the location the product was sold. By July 18, 2023, the pump price at NNPC outlets rose to ₦617 per litre and by September 2024, the price went up to ₦897 per litre. The increase did not stop there, it jumped again to between ₦1,030 and ₦1,075, forcing the black market filling stations to sell the product between ₦1,165 and



N1,175 per litre. It was in late December 2024 when the product was sold between N980.00 and N1,070.00 depending on the location, as a result of the benevolence of the Dangote refinery reduction in the pump price of fuel at the end of 2024. This price reduction is viewed by many as temporary, as the general belief is that the price will still go up again. The removal of fuel subsidy has far-reaching impacts, both positive and negative as discussed below.

The Positive Impact of Fuel Subsidy Removal

The following are some of the positive impacts of fuel subsidy removal as advanced by those who argue that the removal is beneficial to the Nigerian economy:

Reduction in Financial Burden

The removal of fuel subsidies is expected to save Nigeria billions if not trillions of naira annually which can be redirected to other critical sectors such as education, healthcare and infrastructure which will eventually lead to national growth and development in all facets. This is because the Nigerian government has lost trillions of naira financing fuel subsidies in the past.

The subsidy had placed a significant strain on the government's finances, with substantial funds allocated to sustain it.

Increased Private Sector Participation

With the removal of subsidies, private individuals and companies now have the opportunity to import and distribute the product, thereby promoting competition and potentially reducing the price which will result in the affordability of the product by the generality of Nigerians.

Economic Growth

The funds that will accrue from savings as a result of the removal of the subsidy can be invested in projects that stimulate economic growth, create jobs, and improve the living standards of the citizenry.

Reduction in Corruption

Subsidy removal will put a stop to corruption that was associated with fuel subsidy management. The subsidy programme was marred by corruption and mismanagement, with reports of diversion of subsidized fuel and fraudulent practices. During the fuel subsidy regime, there was a high level of corruption in the policy management where billions of money were lost via corruption. In many instances, people were paid for petroleum products not actually supplied or bills were overinflated. With the removal of fuel subsidy, the massive theft of government funds through subsidy has now become a thing of the past.

The Negative Impact of Fuel Subsidy Removal

Notwithstanding the foregoing positive impacts of fuel subsidy removal, there are severe negative impacts as a result of the removal, as advanced by a cross-section of Nigerians. Such negative impacts include the following:



Increased Fuel Prices

The immediate negative impact of subsidy removal is a significant rise in fuel prices, which affects transportation costs, food prices and the overall cost of living resulting in a low standard of living for the people. Generally, the economic activities in the country hinge on the cost of petroleum products, especially fuel. Once the price of fuel increases, the increase in the prices of other goods and services will immediately follow. Most Nigerians today ascribe the rising cost of living in the country as a result of the high cost of fuel occasioned by the removal of fuel subsidy.

Hardship on Low-Income Earners

The increased fuel prices have disproportionately affected the low-income households in the country, who are struggling to afford the daily necessities of life. Most Nigerians are unable to afford three square meals a day, send their children to good schools, meet their health needs when sick and a host of other daily challenges of life that need money to solve. This is because their low-income earners cannot cater for most of their needs as a result of an increase in prices of goods and services brought about by an increase in fuel prices due to the removal of fuel subsidy.

Inflation

The removal of fuel subsidy in the country has led to higher inflation rates, as businesses pass on increased costs to final consumers. For example, the inflation rate in Nigeria today is 34.6%. This in effect, will affect businesses in carrying out their activities which translates into a high cost of doing business. Such increased cost of doing business is then passed to consumers in the form of higher prices. It is worth noting that the fuel price increase contributed to inflationary pressures, with the prices of food commodities surging by over 130%.

Potential for Social Unrest

The sudden increase in fuel prices is a potential for social unrest, protests, and instability in the country. A large percentage of people cannot afford a square meal a day; neither can they meet their daily life necessities. These frustrated people, especially the unemployed youths can seize the opportunity to cause social unrest through protests. As the adage goes, "A frustrated man is an angry man."

CONCLUSION

The removal of fuel subsidy by President Bola Ahmed Tinubu in 2023 is linked to the negative impacts associated with the subsidy, as mentioned in this write-up. The action by the government is intended to benefit all Nigerians, especially the common man and to pave the way for economic growth and development of the nation. However, the removal had caused untold hardship on the citizenry. The overall consequence of the removal of fuel subsidy is the astronomical rise in inflation in the country, making it very difficult for the citizens to afford the basic necessities of life, especially food. For example, the current inflation rate in the country today stands at 34.6%, making life very difficult for an average Nigerian. Fuel



subsidy removal in Nigeria has not yielded the desired result as more people have been thrown into poverty, a situation worse than prior to the removal. This may be a result of the speed at which the subsidy was removed, without putting in place measures that can mitigate against the effects of the removal. Policy commentators have observed that the hasty removal of fuel subsidy has destroyed the Nigerian economy and thrown it fifty years backwards; and that it will take the economy more than two decades to recover.

RECOMMENDATION

For now, fuel subsidy has died and has been buried. It would be out of place for anyone to think that fuel subsidy will be resuscitated in Nigeria soon, considering the massive theft of the government's money through corruption associated with the scheme. We, therefore, recommend that the government can mitigate the negative impacts of fuel subsidy removal in the country by implementing measures targeted at social safety nets, promoting alternative energy sources as well as enhancing public transportation systems. There should be effective communication and transparency by the government in the management and utilization of funds that would accrue from the removal of the subsidy to earn people's support and confidence in the removal of the subsidy.

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