Fuel Subsidy Removal in Nigeria: Problems and Prospects

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Abstract

This study explains the need for fuel subsidy removal and its impact on Nigerians. The policy of fuel subsidy removal was informed by the need to reinvest the huge amount of money that was formerly used for subsidy into the critical sectors of the economy. The main objective of the study is to determine the effect of the removal of fuel subsidy on Nigerians. Specific objectives include to: (i) ascertain the effect of fuel subsidy removal on Nigerians, especially the low income households.(ii) identify the problems created by the removal of fuel subsidy (iii) proffer solutions to the problems of the removal of fuel subsidy in Nigeria. The theory used to explain the removal of fuel subsidy is 'Public Choice theory.'' The method of data collection is secondary source. Some of the major findings of the study are that: the introduction of fuel subsidy has brought economic hardship to Nigerians, especially the low income house holds. The government has not done enough to address the problems caused by the introduction of fuel subsidy removal in Nigeria. Similarly some of the major recommendations are that the government should implement a Social Safety Net Program, by Providing financial assistance to vulnerable populations, such as the poor, elderly, and disabled, to help them cope with the increased cost of living. Government should provide support for small businesses, such as loans and grants, to help them cope with the increased cost of doing business, occasioned by the fuel subsidy removal.

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1. Introduction

In order to lessen the impact of rising oil costs on the Nigerian populace, fuel subsidies were first implemented in Nigeria in the 1970s. The oil boom at the time had resulted in a large rise in Nigeria's oil income, and the government wanted to use some of these funds to subsidize petroleum goods, especially gasoline (also known as Premium Motor Spirit or PMS).
Fuel subsidies eventually caused the Nigerian government to bear a heavy financial burden. The main causes of this were a number of things, such as rising domestic fuel use, ineffective refineries, imported refined goods, smuggling, and corruption. Consequently, the price of petroleum product subsidies increased dramatically. Nigeria is therefore the only nation without the ability to refine its petroleum products. In Venezuela's example, the nation has advanced to the point where it not only refines its crude oil but also owns gas stations and fuel stations all over the United States. Kujenya (2011). Nelson (2009) noted that Nigeria is the only oil-producing nation in the world without a working refinery, as evidenced by the fact that its four refineries have been rendered inoperable by the willful actions of those in power.
According to the most recent policy brief from the Nigeria Extractive Industries Transparency Initiative (NEITI), "The cost of fuel subsidy: A case for policy review," Nigeria spent more than N13 trillion (US$74 billion) on fuel subsidies between 2005 and 2021 (Pedabo,2023). In relative terms, the amount is equal to Nigeria's total defense, agricultural, health, and education budget during the previous five years, as well as nearly all of the capital expenditures for the ten-year period between 2011 and 2020. The expansion and development of the vital economic sectors, such as infrastructure, education, and health, were not reflected in this rise in spending (Hobenu, 2010).

Nigeria's fuel subsidy scheme was particularly vulnerable to global fluctuations in oil prices. When global oil prices rose, the cost of subsidizing fuel imports increased significantly, making Nigeria's fuel subsidy policy especially susceptible to changes in these costs. The cost of subsidizing gasoline imports rose in tandem with the spike in global oil prices, making the government's burden of subsidies even more severe. On the other hand, the government found it difficult to meet the growing demand for subsidies when oil prices fell because of lower revenue. Nigeria's fuel subsidy program was tainted by rent-seeking and corruption. The system gave influential people and organizations a way to take advantage of weaknesses, steal money, and commit fraud. As a result, resources were misallocated, and the petroleum industry's crooked culture was maintained.

Nigeria has seen several attempts over the years to alter or eliminate fuel subsidies. The goals of these reform initiatives were to alleviate the government's financial burden, lessen corruption, increase market efficiency, and reallocate money to more productive industries.
In 2012, the Nigerian government, led by former President Goodluck Jonathan, made a bold move to remove the subsidy on Premium Motor Spirit (PMS). The subsidy was costing the government over N 1 trillion annually, and its removal aimed to redirect funds toward economic stability and infrastructure development. However, this decision ignited widespread protests, strikes, and public unrest. Eventually, the government yielded to public pressure and partially restored the subsidy.
In 2015, faced with declining oil prices and limited financial reserves, President Muhammadu Buhari’s administration announced a gradual phasing out of fuel subsidies over the course of 2016.

Extensive consultations were held with stakeholders, including political leaders, oil sector investors, and civil society organisations. However, before a consensus was reached, a new regime was introduced allowing independent importers and marketers to access foreign currency for fuel imports, capped at N145.6 per litre(Pedabo,2023) Before an agreement could be reached, however, a new system was put in place that allowed independent importers and marketers to get foreign currency for fuel imports, with a maximum of N145.6 per liter (Pedabo,2023).

Nigeria's fuel subsidy journey demonstrates the fine line that must be drawn between social impact and economic improvements. The public has reacted negatively to removal attempts because of worries about rising living expenses. The compromises made by succeeding administrations show how difficult it is to come up with long-term solutions that simultaneously balance social welfare and financial constraints.

During his Inaugural Address on May 29, 2023, President Bola Ahmed Tinubu, GCFR, made the momentous announcement that "the Fuel Subsidy is gone!" signifying the termination of the Premium Motor Spirit (PMS) gasoline subsidy in Nigeria. This historic decision shook the country and had an international impact. This news had the immediate effect of quickly adjusting PMS prices across the nation.

1.2 Objectives of the study

The main objective of the study is to determine the effect of the removal of fuel subsidy on Nigerians. Specific objectives include to: (i) ascertain the effect of fuel subsidy removal on Nigerians, especially the low income house holds.(ii) identify the problems created by the removal of fuel subsidy (iii) proffer solutions to the problems of the removal of fuel subsidy in Nigeria.

2.Review of Related Literature

Subsidy refers to the indirect financial support provided by a government, organization, institutions, or individuals, organizations, or entities. Social media users provided a relatable example that used a fantastical setting to demonstrate this idea. The Nigerian government defended fuel subsidies as a way to guarantee that petroleum products would be affordable for its people, particularly those with lower incomes. By lowering the cost of products and transportation, subsidies were also viewed as a way to promote development, preserve social stability, and aid economic growth.

The advantages and difficulties of eliminating fuel subsidies for Nigeria's economy in the fourth republic are examined by Ikenga and Oluka (2023). To gather data for the study, a qualitative approach was used in conjunction with descriptive analysis. Neoliberalism theory serves as the theoretical foundation for the investigation. The study came to the conclusion that numerous attempts by past administrations to change the fuel subsidy policy had a significant detrimental impact on the populace due to rising costs for food, transportation, and petroleum products. Therefore, the study suggested that the central government should pay close attention to how the policy affects the masses by offering palliatives to lessen people's suffering and ensuring a consistent supply of electricity, as well as infrastructure and amenities to mitigate its effects.

The effects of eliminating fossil fuel subsidies on the EU's carbon neutrality strategy were examined by Antimiani (2023). The study uses CGE and the computable general equilibrium model to analyze the data that was gathered. The study comes to the conclusion that while eliminating subsidies helps achieve carbon neutrality, it can also have an impact on household, industrial, and energy prices.

Prabawet al. (2022) examined poverty, the economic cost of liquid petroleum gas, and the

compensation for subsidy withdrawal in Indonesia. The study analyzes data from primary and secondary sources using an econometric analytic approach. The study came to the conclusion that scenarios involving the elimination of subsidies may have an impact on the economy, particularly for low-income households. Therefore, in order to lessen the suffering of the masses, the report suggests that the government make prudent use of the funds obtained as a result of the withdrawal of subsidies. Greve and Lay (2023) discuss how fossil fuel subsidies are evaluated in emerging nations. The study analyzed the data using a dynamic general equilibrium model. Therefore, the article came to the conclusion that the elimination of subsidies can have diverse effects on different income groups and have an impact on GDP, wellbeing, and citizen consumption patterns. In order to lower the unemployment rate in society, the paper suggested that the government diversify its economic activities and use the money obtained through subsidies to provide citizens with basic necessities.

Fuel subsidy withdrawal and its effects on the Nigerian economy (Iwayemi and Fagbenle, 2012).The effect of eliminating fuel subsidies on the Nigerian economy is investigated in this study. It investigates the impact on government revenue, inflation, and population well-being in general. The study compares data before and after the withdrawal of subsidies using econometric models. A research by Obasi et al. (2023) explores the political economy of Nigeria's fuel subsidy withdrawal and its profound effects on the country's economy and populace's well-being. The paper provides a thorough summary of the political debate around this divisive topic by skillfully addressing the arguments for and against the withdrawal of fuel subsidies. Utilizing secondary data, the study provides a thorough examination. The study provides a thorough analysis based on secondary data, highlighting the widespread corruption in Nigeria's oil industry and its adverse effects on economic growth.

Further evidence that cutting subsidies can increase GDP while lowering household income has been provided by Siddig et al. (2014). These investigations have applied multiple techniques, covering the computable general equilibrium model (Siddig et al., 2014; Adenikinju, 2009), survey data analysis and the narrative approach (Bazilian and Onyeji, 2012), to completely study these complex implications. Musa et al. (2014) conducted a thorough investigation of the effects of eliminating fuel subsidies on the socioeconomic advancement of Nigeria. They examined data from 1980 to 2012 using a price pass-through model and the error correction method to evaluate both short-term and long-term effects. The study found that the withdrawal of fuel subsidies had no direct effect on Nigerians' social well-being in the short term. The long-term view, however, showed promise, suggesting that deregulating the downstream industry would promote the nation's future economic growth.

Using the discourse analysis approach, Obiora and Ozilli's (2023) examination of the macroeconomic and microeconomic ramifications of Nigeria's 2023 gasoline subsidy elimination offers important insights into the possible outcomes of this policy change. They pointed a number of benefits, such as releasing funds for other industries, encouraging domestic refineries, decreasing reliance on imported gasoline, increasing employment, and meeting urgent public infrastructure requirements. Their study does, however, also recognize the drawbacks, including the possibility of a short-term slowdown in economic growth, higher inflation, poverty, gasoline smuggling, and job losses in the unorganized sector. It is crucial to acknowledge certain limitations, even if the study presents a thorough summary of these elements and offers policy

recommendations. The lack of actual evidence to support the assertions about the effects "of fuel subsidy removal" is a major disadvantage. Furthermore, the report doesn't go into great length about the political and social ramifications, the difficulties of really removing subsidies, or the possible difficulties of putting these ideas into practice. The study's credibility and usefulness for policymakers would be increased by a more thorough analysis that takes into account empirical data and delves further into the real-world difficulties.

Numerous studies have addressed the controversial subject of fuel subsidies, offering a range of viewpoints from those in favor of its repeal to those that oppose it. Omitogun et al. (2021), for example, discuss the possible environmental advantages and argue that the elimination of gasoline subsidies could help lower carbon emissions in the Nigerian economy. Similar to this, Adekunle and Oseni (2021) suggest that eliminating fuel subsidies could slow the increase in carbon emissions by promoting less energy use, even if it means raising energy costs. Another viewpoint, supported by Asare et al. (2020), is in favor of eliminating fuel subsidies. According to them, the money raised could be used to address crises like COVID-19 right away and reroute funds to more fruitful long-term recovery initiatives (Ozili and Arun, 2023).

On the other hand, several research highlight the possible negative effects of eliminating gasoline subsidies. According to Umeji and Eleanya (2021), Nigeria's oil wealth has not resulted in an increase in living standards, even with the implementation of gasoline subsidies. They argue that although eliminating the fuel subsidy may have serious consequences, the effects could be lessened if the government is transparent about how it uses the money saved for infrastructure development. Additionally, Ovaga and Okechukwu (2022) claim that fuel subsidies encourage corruption in Nigeria, arguing that a group of corrupt individuals actively undermines efforts to maintain existing refineries and prevents the construction of new ones, thereby sustaining fuel importation and the retention of fuel subsidies for their own self-interest. Omotosho (2020) cautions that • fuel subsidy removal may lead to increased macroeconomic instability, marked by rising energy prices and inflation in Nigeria. McCulloch, Moerenhout, and Yang (2021) point out the widespread skiness among many Nigerians regarding the removal or reforms of fuel subsidies. This distrust stems from a long-held conviction that the government is incompetent and incapable of successfully enacting transparent reforms.

3.Methodology

The study is a qualitative research, which allowed the use of secondary source of data collection. In this case, the study obtained data from government gazette, similar works of other scholar, the internet etc.

Theoretical framework

The ‘Public choice theory’ was used in this study to explain why the Nigerian government eliminated fuel subsidies. Swedish economist Knut Wicksell and American statesman John C. Calhoun are regarded as forerunners of the contemporary public choice theory, which has its origins in the 19th century. But because to the efforts of economists like Duncan Black, Kenneth J. Arrow, and Anthony Downs, the contemporary public choice theory started to take shape in the 1940s and 1950s. Black's 1948 paper and his 1958 book "The Theory of Committees and Elections" are regarded as the theory's cornerstones.

The development of public choice theory was also greatly aided by Arrow's "Social Choice and Individual Values" in 1951 and Downs's "An Economic Theory of Democracy" in 1957. The theory rose to prominence in the 1960s thanks to the work of economists like James Buchanan and Gordon Tullock, who coauthored "The Calculus of Consent: Logical Foundations of Constitutional Democracy" in 1962. The theory gained widespread public attention in 1986 when James Buchanan was awarded the Nobel Prize in economics. When James Buchanan received the Nobel Prize in Economics in 1986, the idea became well known. Philosophers like Thomas Hobbes and Immanuel Kant had an early influence on public choice theory in the 18th century. Later, economists like Kenneth Arrow and Knut Wicksell created social choice theory in the 1950s.

Assumptions of Public Choice theory

The "Public Choice Theory," which contends that public opinion and power dynamics impact government decisions regarding the elimination of fuel subsidies, forms a major part of the theory behind this policy. According to this theory, legislators are logical beings who base their choices on both their own and their constituents' interests. According to the theory, the decision to eliminate fuel subsidies is frequently motivated by the desire to lessen the financial strain on the government and to encourage economic efficiency.

History of oil subsidy Removal in Nigeria

Nigeria between has witnessed series of subsidy removal on petroleum products and successive administrations that embarked on these subsidy removals claim that they would use the proceeds to develop infrastructure, because Nigeria is a country that lacks infrastructural facilities, despite the huge sums that accrued from subsidy removal. General Ibrahim Badamasi Babangia increased the pump price of fuel in 1986. Though he was not the first to remove subsidy on fuel. Fuel subsidy removal as a government policy, was first experienced during Yakubu Gowon’s era as a military Head of state in 1973.When President Ibrahim Babangida removed subsidy in 1987, he set up Directorate of Food, Road and Rural Infrastructure. He also set up Oil Mineral Producing Area Development Commission, but both failed in their acclaimed responsibilities. It was only General Sani Abacha that succeeded in transferring subsidy removal benefits to Nigerians through the instrumentality of Petroleum Trust Fund.

Nigeria has seen a number of petroleum product subsidies removed, and the administrations that have done so have claimed that they will use the money raised to build infrastructure because, despite the enormous sums of money that have been collected from the removal of subsidies, Nigeria lacks infrastructure. In 1986, General Ibrahim Badamasi Babangia raised the petrol pump price. President Ibrahim Babangida established the Directorate of Food, Road, and Rural Infrastructure after eliminating subsidies in 1987. He also established the Oil Mineral Producing Area Development Commission, however neither of these organizations was successful in fulfilling their lauded duties. Only General Sani Abacha was able to use the Petroleum Trust Fund to successfully transmit the advantages of subsidy elimination to Nigerians.

President Olusegun Obasanjo's pledges about the use of subsidy proceeds were all broken. In order to manage the Federal Government's portion of the earnings from the withdrawal of subsidies, President Goodluck established SURE-P. However, in comparison to the funds at its disposal, the program has not accomplished much. Omokhodion (2013).

During his Inaugural Address on May 29, 2023, President Bola Ahmed Tinubu, GCFR, made the momentous announcement that "the Fuel Subsidy is gone!" signifying the termination of the Premium Motor Spirit (PMS) gasoline subsidy in Nigeria. This historic decision shook the country and had an international impact. This news had the immediate effect of quickly adjusting PMS prices across the nation. During his Inaugural Address on May 29, 2023, President Bola Ahmed Tinubu, GCFR, made the momentous announcement that "the Fuel Subsidy is gone!" signifying the termination of the Premium Motor Spirit (PMS) gasoline subsidy in Nigeria. This historic decision shook the country and had an international impact. This news had the immediate effect of quickly adjusting PMS prices across the nation.

History of fuel price increase in Nigeria from 1973-2024

The table below shows the petrol Price Increment under the regime of the present and past leaders.

S/n	Regime	Year	Price
1	Gowon	1973	6k to 8.45k
2	Murtala	1976	8.45k to 9k
3	Obasanjo	1978	9k to 15.3k
4	Shagari	1982	15.3k to 20k
5	Babangida	1986	20k to 39.5k
	“	1988	39.5k to 42k
	“	1989	42k to 60k
	“	1991	60k to70k
6	Shonekan	1993	70k to N5
7	Abacha	1993	N5 to N3.25
	“	1994	N3.25k to N15
	“	1994	N15 to N11
8	Abubakar	1998	N11 to N25
	“	1999	N25 to N20
9	Obasanjo	2000	N20 to N30
	“	2002	N30 to N22
	“	2003	N26 to N42
	“	2004	N42 to N50
	“	2004	N50 to N65
	“	2007	N65 to N75

S/n	Regime	Year	Price
10	Yar' Adua	2007	N75 to N65
11	Jonathan	2012	N65 to N141
	"	2015	N141 to N97
	"	2015	N97 to N87
12	Buhari	2016	N87 to N145
	"	2021	N165 to N212
13	Tinubu	2023	N220 to N617
14	"	2024	N898 to N1,030

Source: Abdulbasit Toriola

Benefits of the removal of oil subsidy in Nigeria

Reduce Nigeria's reliance on foreign gasoline imports

If the withdrawal of gasoline subsidy is followed by the reinvigoration of Nigeria's domestic refineries, it could motivate domestic refineries to manufacture more petroleum products and lessen Nigeria's dependence on imported fuel (Akinola, 2018). Take the recently established Dangote Refinery, for example. Its enormous 650,000 barrels per day refining capacity is enough to cover Nigeria's local demand for refined petroleum products, produce an excess for export, and drastically cut down on the import of gasoline. Nigeria's refining capabilities and reliance on imported gasoline will be further enhanced by more indigenous refineries, each with varying degrees of capacity, in addition to the Dangote Refinery.

Funds are made available for the growth of other industries.

Ogunode, Ahmed, and Olugbenga (2023) and Gidigbi and Bello (2020) both believe that the money saved by eliminating gasoline subsidies might be used to develop other areas of the economy. The elimination of gasoline subsidies can help build Nigeria's vital public infrastructure while also freeing up funds for the growth of other areas that need substantial government support and involvement. Agriculture, healthcare, tourism, education, and the execution of the Student As seen in this study, several economic sectors did not function at their best before the gasoline subsidy was eliminated because of poor private sector investment and pitiful levels of governmental spending in those areas as a result of low government revenue. It is intended that by eliminating the fuel subsidy, the federal government will redirect the funds to other areas that require government support.

Reduced carbon emissions by eliminating fuel subsidies

Fuel subsidies during the past ten years have promoted economic activity based on fossil fuels, which has increased Nigeria's carbon emissions and air pollution. Fuel subsidies are partially to blame for Nigeria's CO2 damage, which increased from US$1.5 billion in 1998 to US$5.23 billion

in 2021. Nigeria would contribute less to global greenhouse gas emissions by 2030 and boost continuing efforts to mitigate climate change if fuel subsidies were eliminated. Removing fuel subsidies will also reduce the supply and demand for fossil fuels, which would lower Nigeria's carbon emissions (Omitogun et al., 2021).

Budgetary control

The elimination of the fuel subsidy would also have a positive macroeconomic impact because the money would be utilized to close the present budget deficit. According to existing research, gasoline subsidies are a contributing factor to Nigeria's growing fiscal deficit and should be eliminated (Harun et al, 2018; Adagunodo, 2022). In the past ten years, Nigeria has experienced a fiscal deficit. For more than ten years, Nigeria's budget to GDP ratio has been negative. More recently, it was estimated that the gasoline subsidy will cost ₦4 trillion in 2022 and an astounding ₦17 trillion in 2023, however the approved budget for 2023 was only ₦21.83 trillion.This suggests that the gasoline subsidy would take up almost 77% of the budget, which would push Nigeria closer to bankruptcy and into a chronic budget deficit. Nigeria's financial condition was made even more difficult during the fuel subsidy regime because 90% of its income is utilized to pay down its external debt. Nigeria's finances would benefit from the recent elimination of the fuel subsidy since the ₦17 trillion would be utilized to supplement the national budget, lowering the country's current budget deficit. Additionally, Nigeria may eventually have a fiscal surplus.

The money saved by eliminating gasoline subsidies would be used to build vital public infrastructure.

The elimination of the fuel subsidy in Nigeria has a beneficial macroeconomic impact since the money that would have been used to pay for the subsidy might now be used to build vital public infrastructure in the country. Scholarly economists agree that money from subsidy payments might be utilized to fund public infrastructure projects (Bazilian and Onyeji, 2012; Majekodunmi, 2013). Prior to the withdrawal of fuel subsidy, Nigeria did not have adequate money to fund the development of key public facilities (see figure 1). Due to a lack of funding, the government had to take on massive debt in order to pay for the budget.

The government might, however, use these monies and direct them properly for the development of vital public facilities in Nigeria once the fuel subsidy is eliminated in 2023. This result is only possible if the government is open, truthful, and accountable for making sure that the money saved by eliminating fuel subsidies is used to build vital public infrastructure.

A rise in competition

Eliminating the gasoline subsidy would also have a beneficial microeconomic impact since it will introduce a market-determined pricing and may eventually lead to lower product prices as a result of healthy competition (Bagirov and Mateus, 2019). Complete liberalization of the oil industry will increase market competitiveness and boost downstream efficiency. Additionally, flexible pricing mechanisms that are only influenced by market forces are made possible by deregulation. In addition to promoting competition and removing the Nigerian National Petroleum Corporation's (NNPC) monopoly on fuel imports into Nigeria, the removal of fuel subsidies will open the downstream sector to new investors and entrants

The market will set the price of gasoline as competition enters the market, and as competition heats up, the price of gasoline will decline.

Restored domestic refineries to operate

The elimination of gasoline subsidies has the potential to revitalize domestic refineries, which is another advantageous microeconomic effect. Ever since the fuel subsidy regime began, Nigeria's domestic refineries have been in poor condition (Okongwu and Imoisi, 2022). Due to widespread corruption linked to fuel subsidies, the existence of subsidies has not resulted in the resuscitation of domestic refineries. Following the elimination of fuel subsidies, the government may be able to boost domestic crude oil production in Nigeria by implementing measures to revitalize the country's refineries.

It will reduce systematic corruption related to the payment of gasoline subsidies.

Eliminating gasoline subsidies may also have a positive microeconomic impact by preventing corruption in fuel subsidy payments. The fuel subsidy is seen as a ruse to keep diverting Nigeria's hard-earned foreign cash into foreign private accounts (Itumo and Onyejiuba, 2019; Sheyin, 2018). Recent figures reveal that the international price of oil crude has not gone up much, but Nigeria's crude oil output has climbed, and created around two million barrels per day. However, there have been ongoing reports of Nigeria's external reserves dropping. What on earth might have caused this? It's just corruption.

For example, an oil marketer imports only fifteen metric tons of petrol and will travel to the Petroleum Products Pricing Regulatory Agency (PPPRA) in Abuja to declare that he imported seventy-five metric tons of petrol. In order to obtain their own portion of the inflated sixty metric tons, the importers will conspire with certain PPPRA personnel. During the gasoline subsidy regime, this was the main corruption that occurred. However, this kind of corruption will end entirely once gasoline subsidies are eliminated. As of right now, importers will only be compensated for the actual gasoline they bring into the nation (Ozili, Obiora 2024).

Decreased government borrowing

The negative impact of fuel subsidy payments on government borrowing has been discussed (Okongwu and Imoisi, 2022). The Nigerian government has been borrowing since the beginning of the fuel subsidy regime, and the borrowing got worse during the COVID-19 pandemic in 2020 and the recession in 2016 (Ozili, 2022). The Central Bank of Nigeria (CBN) provided the government with ongoing borrowing in 2022 through provisions for debt repayment and subsidy payments. The only option available to the government was to borrow more money from the central bank. The FG recently securitized the ₦22.7 trillion that the government owes the Central Bank in 2023 with the national assembly's permission. The recent elimination of the fuel subsidy suggests that the government will no longer need to borrow money from the Central Bank because the money saved would be used to pay for public spending.

The pricing will be established by the market.

One positive microeconomic implication of the removal of fuel subsidy is that price of petrol, or Premium Motor Spirit (PMS) will be determined by the forces of demand and supply (Su et al, 2020), rather than being determined by government regulation or through subsidy. This will prevent the under-pricing of petrol and would curb corruption arising from inflating the quantity of imported PMS under the fuel subsidy regime. The removal of fuel subsidy will also lead to accurate pricing that reflects actual conditions in the international market for crude oil.

Reducing pressure on the exchange rate or strengthening it

Following the removal of fuel subsidy, the government should allow domestic refineries to produce more crude oil and other petroleum products. This will reduce the importation of petroleum products and increase the exportation of locally produced petroleum products (Akinola, 2018). This, in turn, will conserve foreign exchange from imported petrol and increase foreign exchange accretion from exported petrol. The foreign exchange accretion will boost foreign exchange supply in the foreign exchange market and strengthen the Naira against the U.S. Dollar. This, in turn, will lead to the appreciation of the Naira and an improved exchange rate. For example, the Dangote Refinery which has a refining capacity of 650,000 barrels per day, can meet Nigeria's domestic demand for refined petroleum products, reduce petrol importation and generate a surplus for export. As a result, the government could save billions of dollars spent on petroleum imports, and such savings could be used to ease the pressure on the exchange rate and improve trade balances.

A rise in employment

Another positive macroeconomic implication of the fuel subsidy removal is that it would create jobs. The total deregulation of the downstream sector will allow more companies to import fuel at competitive rates (Olujobi, 2021). These companies will hire workers, thereby creating jobs. Also, the reinvigoration of domestic refineries in Nigeria will lead to job creation. Furthermore, when the Dangote refinery starts producing, it could create more than 10,000 direct jobs in Lagos alone and over 30,000 indirect jobs across Nigeria, thereby increasing the level of employment.

Negative effect of the removal of oil subsidy

Job loss in the unorganized sector

The removal of fuel subsidy will lead to job loss in the informal sector that rely mostly on PMS or petrol (Houeland, 2022). The formal sector uses mostly diesel for their activities while the informal sector relies mostly on petrol. The rise in petrol prices would lead to the shutdown of small businesses that cannot afford the rising cost of petrol and whose profit margins have been completely eroded by fuel subsidy removal in the formal sector.

Implications for society and culture

The fuel subsidy removal also has social and cultural implications. Historically, Nigerian households have a culture of coping with pain, and this is evident in the little number of protests that have taken place in the last 10 years. Therefore, it is expected that Nigerian households would cope with the adverse price effect of the fuel subsidy removal, and their coping culture could manifest through the immediate change in consumption and spending behaviour. It can lead to a reduction in transportation expenses as many people will avoid unnecessary movements and travels. Households will avoid impulse purchases as a coping strategy, while some will avoid luxury purchases and unnecessary social gatherings that require the spending of money. These cultural practices and societal norms could influence people's reactions to the policy change.

An increase in vulnerability and poverty

A negative microeconomic implication of the removal of fuel subsidy is that it will increase poverty in the short term (Raji, 2018). It will lead to immediate pain and hunger for families. At the individual level, the removal of fuel subsidy, and without any palliatives, could lead to fewer disposable income, fewer food in the land, fewer medicine for sick people, and inability to afford basic education in several parts of the country especially in the Northern region of Nigeria. More families will go hungry, more children will cry in hunger and more parents will cry at their children's despair. The poor and middle-class consumers will witness a fall in their purchasing power, and small businesses will find their profit margins squeezed because they will face higher costs and reduced sales volumes. And if they attempt to pass on the cost to consumers, consumers might refuse to buy or they will reduce the quantity purchased, thereby leading to low business patronage. Furthermore, the fuel subsidy removal could affect poor vulnerable groups disproportionately if there are no economic safety nets or social assistance programmes that can alleviate the economic hardship caused by the fuel subsidy removal(Ozili, Obiora 2024).

Protests and social upheaval

The elimination of fuel subsidies may also have the microeconomic consequence of causing societal unrest and riots (Houeland, 2020). Protests may be sparked by the increase in the cost of petroleum products. Poor households will be forced to the breaking point if prices keep rising, and they will have no choice but to demonstrate and cause social unrest in order to persuade the government to undo the loss of fuel subsidies.

Increase in the rate of fuel smuggling

The possibility of fuel smuggling is another adverse microeconomic effect of eliminating fuel subsidies. In contrast to when people smuggled cheap fuel from Nigeria to the Niger Republic when the fuel subsidy was still in place, the increase in petrol prices after the withdrawal of the fuel subsidy may lead to more people smuggling cheaper fuel into Nigeria from neighboring nations (Idrisu, 2020). Since many individuals in Nigeria's rural areas cannot afford to pay ₦537 for petrol, the loss of fuel subsidies is expected to lead to an increase in the smuggling of cheaper fuel into these areas.

Increase in crime rate

The removal of the fuel subsidy has another negative microeconomic impact: it may lead to an increase in crime (Shagali and Yusuf, 2022). The price of gasoline may rise after the fuel subsidy is removed, which could result in theft of gasoline from refinery warehouses, people's cars, residential homes, and electric generators. As more Nigerians struggle to make ends meet, the crime rate may worsen.

High inflation and diminished purchasing power

The elimination of fuel subsidies would also have a negative macroeconomic impact by raising the rate of inflation (Mohammed, Ahmed, and Adedeji, 2020). The price of gasoline increased from a subsidized price of 190 in May 2023 to an unsubsidized price of 537 in June 2023 and 617 in July 2023 in Abuja as a result of the loss of the fuel subsidy. In the meantime, because of the high cost of transportation, gas prices in the far north, like in Borno State, may surpass 600 naira. The price of the majority of consumer and industrial items that are made or carried using gasoline

is expected to rise significantly. Bread prices will rise along with the cost of local transportation, making it more difficult for low-income earners and the impoverished to afford. Both the wealthy and the impoverished will be impacted, but as usual, the poor will bear the brunt of it due to a sharp decline in their purchasing power. The inflation effect could be further compounded by the late deployment of palliatives by the Federal Government to support the poor and households who are harmed by the spike in the price of basic products and services immediately following fuel subsidy termination.

Effects of eliminating fuel subsidies on the environment

The recent elimination of fuel subsidies may aid in Nigeria's efforts to combat climate change, especially in light of the worldwide movement to do so. On the plus side, the elimination of fuel subsidies gives environmentalists a chance to promote the switch to clean energy, more funding for renewable energy sources, and the creation of laws to support the green economy. To guarantee that the elimination of fuel subsidies improves the environment, Nigeria need a thorough plan. Removing fuel subsidies, however, can pose some environmental problems if rising fuel costs deter people from driving private vehicles and cause them to switch to public transit, which emits significantly more pollutants into the atmosphere than private vehicles. These contaminants will have a negative impact on public health and air quality.

In addition, Nigeria's public transportation system lacks sustainable alternatives and is inefficient. In order to preserve the environment, the Nigerian government should make sure that a portion of the money saved by eliminating fuel subsidies is utilized to improve the infrastructure of public transportation and encourage the use of vehicles that have minimal carbon footprints (Ozili, Obiora 2024).

Price increases for fuel products

The cost of petroleum products has increased as a result of the elimination of fuel subsidies. As a result, there is less of a need for gasoline and less gasoline is being bought. The profit margin for small enterprises that depend on gasoline will be reduced due to the decrease in demand. The impact will be felt by everyone, but as usual, the poor will bear the brunt of it.

Since the price of crude oil on the global market will largely determine the prices of petroleum products in Nigeria, the expectation that the removal of fuel subsidies in 2023 will increase competition among gasoline marketers and drive prices downward is purely academic and unlikely to materialize anytime soon. It implies that fuel prices will continue to rise at their current rate for some time to come (Raji, 2018).

Reduction in short-term economic growth

The withdrawal of gasoline subsidies may have a negative macroeconomic impact by slowing economic growth (Houeland, 2020). The elimination of fuel subsidies would result in higher costs for necessities. Consequently, a set national minimum wage, stagnant earnings, and rising prices would reduce the amount of disposable income available to small enterprises and individuals. This will serve as a drag on aggregate demand and result in lower consumption expenditure. The decrease in consumption would result in a weak demand from consumers for the products and services that businesses provide. This could therefore limit the rate of economic growth and lower economic production and gross domestic product

Conclusion

The introduction of fuel subsidy as a policy in Nigeria was to create enabling environment for even distribution of the commonwealth. It is beneficial to all and sundry, as the low income house hold in the society have their interests protected. Fuel subsidy era suggests economic abundance, stability and welfarism. Nigerians had nothing to complain about during this period in the history of this country. However, as a member of the global community, Nigeria removed fuel subsidy, following the pressure from the international market, and corruption in the oil sector. Consequently, the government justified the removal of fuel subsidy on the high cost of sustaining the program. The removal of the fuel subsidy will create room for the government to redirect the money that would have been used for that to the provision of social amenities, such as education, healthcare, roads etc. Obviously, the era of fuel subsidy removal in Nigeria is characterized by high cost of living, high death rate, hunger and starvation, poverty etc. The vulnerable population with regards to this change in policy in Nigeria are the low income class, the poor, elderly, disabled etc.

4.Recommendations

Here are some recommendations on what the government may do to cushion the consequences of fuel subsidy removal on Nigerians:

The government should implement a Social Safety Net Program, by Providing financial assistance to vulnerable populations, such as the poor, elderly, and disabled, to help them cope with the increased cost of living.

There is the urgent need for the government to invest in Public Transportation so as to improve the public transportation system to reduce the reliance on personal vehicles and make transportation more affordable for citizens.

The government should take a step further by subsidizing essential commodities such as food, healthcare, and education to reduce the burden on low-income households.

Though the government has increased the minimum wage recently, it should be reviewed every two years to help workers cope with the increased cost of living.

Government should provide support for small businesses, such as loans and grants, to help them cope with the increased cost of doing business, occasioned by the fuel subsidy removal.

In order to meet the energy needs of those affected by the policy, government should invest in renewable energy sources, such as solar and wind power, to reduce the country's reliance on fossil fuels and reduce the cost of energy.

Job creation is necessary in sectors that are not heavily reliant on fuel, such as agriculture, manufacturing, and services, to reduce the impact of fuel subsidy removal on employment.

Provision of tax relief by the government to low-income households and small businesses to help them cope with the increased cost of living is a necessity.

Adequate education of the citizens on the reasons for the fuel subsidy removal and the benefits of the policy to the public, and provision of regular updates on the progress of the policy is also necessary.

The Establishment of a fund to stabilize fuel prices and reduce the impact of price volatility on consumers is a step in the right direction.

Government should support farmers by providing them with subsidies, loans, and other forms of assistance to help them cope with the increased cost of fuel and other inputs.

Heavy investment in infrastructure, such as roads, bridges, and ports, to improve the efficiency of transportation and reduce the cost of doing business is necessary.

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