

A Conceptual Review of Fuel Subsidy and the Nigerian Economy

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Abstract: *Over the years, fuel subsidies have been a subject of discussion on effects it has on the economy of an area of which this research study seeks to analyze the effects of fuel subsidies in Nigeria and the benefits as well as disadvantages of this policy. Subsidies have especially been used to ensure the prices of fuel are relatively low to allow inflation control, hence ensure social stability. But they have also brought in considerable expenses, manipulated the market price and promoted corrupt practices and smuggling. The above-suited pull back by President Bola Tinubu in May 2023 was predicted to slowly raise inflation and cost of living, especially within the lower income segment. Based on the Indonesian, Iranian and Venezuelan experiences, the paper presents the notions of gradualism in subsidy popping, selective welfare spending and development of renewable energy resources. Recommendations are such aspects as gradual subsidy withdrawal, more openness, and shifting of the subsidies towards infrastructure and social needs. The study finally, therefore emphasizes on the imperative of exercising keen vigil whenever there is transition to guarantee stable economic progress and better standards of living.*

Keywords: subsidy, fuel, inflation, sustainable implication, economy, live.

INTRODUCTION

Fuel subsidies are monetary operations that involve government interference in controlling the prices of fuel for the common consumers. For these subsidies' primary goal is to keep fuel prices moderate, provide affordable energy and stabilize the economy. Fuel subsidies, in Nigeria, have had a feel of an era with a drastic influence on various aspect of the economy and society.

At the moment, there have been alterations of fuel subsidy regime in Nigeria. In recent year there has been a pressure on the government to change the subsidy system because of its large costs to the national budget and for the distortions that it creates on the fuel market. In early May 2023, the President Bola Tinubu decided to remove all fuel subsidies which can be considered as a radical turning point in Nigeria's economic management. This policy decision, long advocated for to address the country's fiscal challenge has however elicited divergent public reactions due to the fear of increased cost of living; inflation (The Republic, 2023).

With the removal of fuel subsidies, it is thought that the price of commodities will rise tremendously meaning that the cost of living will go up. As for Nigeria, high unemployment rate and inflation rate are already familiar issues and the country eagerly awaits more pressure on economy due to this change in policy. The consumer price index often used in measures the rate of change in price of goods and services was at 22.04% in March 2023 and is expected to go higher after the removal of the subsidies (KPMG, 2023)

The problem focus of this research is to assess the economic effects of fuel subsidies in Nigeria, considering the advantages as well as the disadvantages. It is important for policy makers to grasp such implications in light of the challenges, which surround energy pricing and general economic policy. This paper shall discuss the past, present and possibly the future of fuel subsidies in Nigeria including its implications and likely recommendations for the country's sustainable energy policies.

Historical Background

The history of fuel subsidies in Nigeria started as soon as the country was transformed into an oil producing country around the 1970s. The government came up with subsidies for fuel as a way of protecting the public from global market fluctuations for oil and to provide cheap fuel for internal use. The subsidies were first launched during the military administration of Obasanjo in 1977 and hence sparked a new practice among the subsequent Nigerian governments.

There has been changes in Nigeria's subsidy policy over the years. When global oil price increased, the subsidies equally became more generous thus placing a bigger burden to the government. As an example, within the year 2010-2015, during the presidency of Goodluck Jonathan, Nigeria used roughly N3.9 trillion on fuel subsidies – The Republic.

Nevertheless, due to the public pressure and the threat of riots different governments tried to reform or abolish these subsidies but failed to do it. Presidency under Muhammadu Buhari (2015-2023) sustained the subsidy regime with an objectively incurred amount as high as N11 trillion, which remains the highest in the scale since its implementation (The Republic, 2023).

As a policy change in May 2023, the President-elect Bola Tinubu's administration abolished fuel subsidies full stop to ease pressure on the annual budget and support sustainable growth (The Republic, 2023). This decision has laid the foundation for a new chapter in the country's economic

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policy whereby comprehensive changes affect the economic fortune of the country as well as its inhabitants.

The eradicating of fuel subsidies is going to have rather profound economic effects. The first of these is likely to be an up gas on the inflation rate within the economy. Due to the likely high fuel costs, there will be corresponding high costs in transporting goods and manufacturing or producing goods and services, result in high prices for all goods and services. This inflationary pressure can reduce the purchasing power and escalate the cost of living of many persons in Nigeria especially low-income earners who expend a higher percentage more on necessities.

In addition, purchasing power parity may reduce because consumers face a new reality of increasing energy prices. Higher fuel price may result in expenditure on transport, cooking and other energy sensitive activities being expensive, thus, means more than money amount that leaves less disposable income and the rest of the expenditure has to be adjusted. Such a situation could lead to increases poverty levels and increase the poverty gap between the rich and the poor.

Current Situation

Nigeria is currently at a crossroads in its choice of an economic development model of fuel subsidies. The most recent one was by President Bola Tinubu on 5 th May 2023 to used the market price towards fiscally sustainable energy subsidies. Nevertheless, the following barriers are observed in the context of this policy change.

They have observed that the current situation after pulling out subsidies is the increase in fuel prices and there goes the transportation prices, production prices. This will most probably lead to a steep increase in the inflation rate and a worsening of the position of consumers on the purchasing power scale. The bureaus indicate that the consumer price index hit 22.04 percent in march 2023 and is set to rise further by the new fuel prices (KPMG, 2023).

They also anticipate that withdrawal of subsidies will have both positive and negative impacts on the standard of living. , although it ensures that the government expenses are cut down realising capital for more important spending, Nigerians are likely to experience a decrease of their purchasing capacity and overall quality of life due to the higher price of fuel and related products. Solving these concerns is going to entail a very broad range of polices that are intended to safeguard sensitive groups and the overall transition to a new market-oriented fuel price setting regime.

The fuel subsidies case therefore calls for assessment of the other countries that have implemented or withdrawn it in order to gain some lessons. Here are a few relevant case studies:

Indonesia: A good example of a country which has recently embarked on the reforming of subsidies is Indonesia, a fellow oil producing nation. In 2014 the Indonesian government started to gradually eliminate fuel subsidies because they were taking up too much of the country's budget.

Removing was gradual to enable the public to change and strengthen enactment of social welfare programs to alleviate the effects on low-income families. The changes brought about positive fiscal effects in the sense that the money that was used to substandard Give was channeled towards the improvement of infrastructure, and other social sectors, thereby improving economic growth and development (World Bank, 2015).

Iran: Another useful reference point is Iran's experiment with „de subsidization”. Comparatively in 2010, Iran implemented what is described as one of the most extensive subsidy reform in the global market where energy subsidies were reduced without also reducing the living costs for its citizens through implementation of cash transfer. This approach assisted in softening the impacts on the population and preserving stability in the society besides lowering the cost of subsidization while substantially enhancing the influence of macroeconomic policies on the fiscal deficit (Guillaume et al., 2011).

Venezuela: On the other hand, Venezuela provides a mirror which should be held out against the vultures that are poised to prey on the inexperienced. Still, Venezuela, which takes the seventh place among the biggest world's oil producers, keeps fuel prices low because of huge subsidies. This policy has results to serious economic inefficiency, increased smuggling incidences and higher cost to the government. The prolonged subsidy system has further exposed the country to its ever-worsening economic problems, this is the danger of extending such policies into the future (Corrales, 2019).

These case studies highlight several key lessons for Nigeria:

1. Phased Implementation: Such subcategory of subsidies can be gradually taken away to ease the blow for the economy and allow for the required changes to be made.
2. Social Welfare Programs: Subidy removal can have negative impacts on vulnerable groups within society, therefore, if well implemented social welfare programs may assist in cushioning such group of people.
3. Transparency and Communication: The account of the factors leading to the splitting of subsidies and the demonstration of the advantages of reforms have to remain open and flawless for the population to accept the changes and preserve public stability.

CONCLUSION

This study finds fuel subsidies to be a bane in Nigeria as they have brought short term gains but long-term pains. The recent development to eliminate these subsidies is strategic for restoring fiscal sanity and restructuring the economy. Any transition must be gradual to avoid any bad effects on inflation and the standard of living of the Sudanese people. This paper finds that despite the difficult but possible task of creating better employment and enhancing youths' welfare through

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structural change, Nigeria can learn from other countries' experiences and adopt specific policy interventions.

Policy Recommendations

Based on the analysis of fuel subsidies in Nigeria and lessons from other countries, the following policy recommendations are suggested to ensure a smooth transition and mitigate adverse impacts:

Short-term Measures

1. **Phased Removal:** That way, they should gradually remove any subsidies so that the economy, as well as consumers, can adapt to new changes. A gradual approach may lessen the impact and allow the needed changes in the market and so a phased implementation can work.
2. **Targeted Subsidies:** Offer targeted Fuel Subsidy or direct cash transfer to the most affected groups with a view of offsetting the effects of fuel prices. This will help ensure that such groups get the necessary assistance when the transition is on.
3. **Public Awareness Campaigns:** There is also the need for governments to embark on aggressive public enlightenment programmes giving reasons why subsidy must be removed and why it will be in the long-term interest of every country. Another significant factor by which the population should be won over and unrest should not be allowed in is increased transparency and communication.

Long-term Strategies

1. **Investment in Infrastructure:** Instead of using such subsidies, they Move those resources and channel them towards much needed infrastructural development namely transportation, health and education sectors. Upgraded infrastructure will go a long way in increase the economic efficiency, as well as the standard of living.
2. **Promotion of Alternative Energy Sources:** Fund and support research into new forms of energy to reduce reliance on oil products. It remains largely unrefuted that renewable energy developers, the construction of renewable energy projects can offset unemployment while fostering economic development and offering a sustainable source of energy for the future.
3. **Strengthening Institutional Frameworks:** Strengthen the governance related to measures against corruption and proper usage of resources, pulp and paper. It is evident that attempts to enhance the institutional framework for development can lead to advancement in the management of governance and build trust from the public domain.

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