

## **ECONOMIC IMPACT ASSESSMENT OF FUEL SUBSIDY REMOVAL IN NIGERIA: EFFECTS ON INFLATION, POVERTY, AND ECONOMIC GROWTH**

**Joseph Dada Obele, PD, BSc, PGD, MSc, Ph.D**  
**Department of Marketing, Ignatius Ajuru University of Education, Port**  
**Harcourt, Rivers State, Nigeria**

Tel- 08030843930, Email- ●skylinkerseleme@yahoo.com

●Obele. Joseph @iaue.edu.ng

### **ABSTRACT**

*The removal of fuel subsidy in Nigeria has generated widespread debate on its economic implications. This study examined the economic impact of fuel subsidy removal on inflation, poverty, and economic growth in Nigeria. Using a descriptive research design, secondary data were sourced from the Central Bank of Nigeria (CBN), National Bureau of Statistics (NBS), World Bank, and International Monetary Fund (IMF). Findings revealed that subsidy removal has contributed to rising inflationary trends, which in turn exacerbated poverty levels, particularly among low-income households. However, the policy also presents opportunities for fiscal sustainability, as it frees up resources that can be redirected to critical sectors of the economy. The study concluded that while subsidy removal creates short-term economic hardships, it offers potential for long-term growth and development if accompanied by transparent governance, social protection measures, and targeted investments. Recommendations were made for strengthening social safety nets, promoting public accountability, and developing alternative energy policies to mitigate the negative impacts on vulnerable groups while sustaining economic reforms.*

**Keywords: Fuel subsidy removal, Inflation, Poverty, Economic growth, Fiscal policy, Nigeria, Economic development**

### **INTRODUCTION**

Fuel subsidies government policies that allow fuel to be sold below its market price have long been a defining feature of Nigeria's energy and macroeconomic policy. These subsidies are often defended as mechanisms to cushion households from volatile international oil prices and maintain social stability. However, critics argue that they generate fiscal pressures, distort market efficiency, encourage smuggling, and crowd out investments in critical infrastructure (Adenikinju, 2020; World Bank, 2021).

Nigeria's fuel subsidy regime has been a contentious issue, with proponents arguing that it distorts market prices and burdens the government's finances, while opponents contend that it provides essential support to low-income households. President Bola Ahmed Tinubu announced the removal of fuel subsidy on May 29, 2019, marking a significant shift in Nigeria's energy policy (Premium Times, 2019).

The removal of this subsidy was not merely symbolic but substantive: fuel prices spiked sharply, exerting ripple effects across transportation, cost of goods, and household welfare. Early evidence suggests that inflationary pressures intensified, especially in food and transport sectors, eroding real incomes particularly for vulnerable and low-income households (African Development Bank [AfDB], 2019; Okonkwo & Eke, 2020). Indeed, studies note that the short-term consequences include rising poverty rates and a worsening cost-of-living crisis (Adewuyi, 2019).

Nevertheless, subsidy elimination is also viewed as a potential catalyst for long-term fiscal sustainability and economic growth. By reducing budgetary distortions, subsidy savings could be redirected toward health, education, and infrastructure investment, with positive growth implications (IMF, 2019; Obadan, 2018). Thus, the reform creates a dual policy challenge: mitigating immediate inflationary and welfare shocks while leveraging the fiscal space to promote sustainable development.

### **Statement of the Problem**

Fuel subsidies have historically been a critical yet controversial aspect of Nigeria's economic management. While designed to cushion citizens against volatile international oil prices, the subsidy has also imposed a substantial fiscal burden, accounting for billions of dollars annually and crowding out productive investments in infrastructure, health, and education (Adenikinju, 2020; World Bank, 2021). Despite repeated calls for reform, successive governments struggled with subsidy removal due to the potential for social unrest and the disproportionate impact on low-income households (Obadan, 2018).

The announcement by President Bola Ahmed Tinubu on May 29, 2019, of the full removal of the fuel subsidy marked a turning point in Nigeria's economic policy (Premium Times, 2019). However, this policy shift has generated significant socio-economic consequences. In the immediate aftermath, petrol prices more than tripled, cascading into higher transport costs, surging commodity prices, and a spike in inflation (AfDB, 2019; Okonkwo & Eke, 2020). The inflationary shock has eroded household purchasing power, worsening poverty levels in a country where over 40% of the population already lived below the poverty line prior to the reform (World Bank, 2021).

While advocates argue that subsidy removal could free up public resources for long-term development and promote efficiency, the short-run outcomes suggest growing hardship among vulnerable groups (Adewuyi, 2019). There is therefore a pressing need for empirical assessment of the actual economic impact of subsidy removal, particularly on inflation, poverty, and economic growth. Without such analysis, policy responses may remain inadequate, and the reform may deepen inequality instead of driving sustainable development.

This study is therefore motivated by the urgent need to provide evidence-based insights into the economic consequences of fuel subsidy removal in Nigeria, bridging the gap between fiscal efficiency goals and the lived realities of citizens.

### **Aim and Objectives of the Study**

The aim of this study is to assess the economic impact of fuel subsidy removal in Nigeria, with particular focus on its effects on inflation, poverty, and economic growth.

The specific objectives of the study are to:

1. Examine the effect of fuel subsidy removal on inflation in Nigeria.
2. Assess the impact of fuel subsidy removal on poverty levels in Nigeria.
3. Investigate the relationship between fuel subsidy removal and economic growth in Nigeria.

### **Research Questions**

The study will be guided by the following questions:

1. What is the effect of fuel subsidy removal on inflation in Nigeria?
2. How has fuel subsidy removal influenced poverty levels in Nigeria?
3. What is the relationship between fuel subsidy removal and economic growth in Nigeria?

### **METHODOLOGY**

This study adopted a descriptive research design to examine the economic impact of fuel subsidy removal in Nigeria, focusing on its effects on inflation, poverty, and economic growth. The descriptive design was considered appropriate because the study aimed to present a factual account of existing conditions and trends following the subsidy removal, rather than manipulate variables or establish causal relationships. This design provided the framework for systematically describing the observed patterns in Nigeria's economy (Creswell & Creswell, 2018).

The population of the study comprised macroeconomic data on Nigeria covering the period between 2013 and 2019. This timeframe was deliberately selected to capture both pre-subsidy and post-subsidy removal economic conditions, thereby providing a comparative basis for the analysis.

The study relied exclusively on secondary data obtained from credible and authoritative sources. These included the Central Bank of Nigeria (CBN) Statistical Bulletin, National Bureau of Statistics

(NBS) reports, World Bank Development Indicators, African Development Bank (AfDB) economic outlooks, and International Monetary Fund (IMF) publications. These sources were considered suitable because of their reliability, accessibility, and wide application in economic research and policymaking.

The variables of the study were operationalized as follows: fuel subsidy removal served as the central policy variable, defined by the discontinuation of government subsidy expenditure from May 2019. Inflation was measured using the Consumer Price Index (CPI) and headline inflation rate as published by the NBS. Poverty was assessed through indicators such as the poverty headcount ratio, household consumption expenditure, and cost-of-living measures. Economic growth was measured using annual Gross Domestic Product (GDP) growth rates.

Data collection was carried out through desk review of the published reports and statistical databases of the identified institutions. All relevant data sets within the specified period were retrieved, collated, and systematically organized for analysis.

Data analysis involved the use of descriptive statistical techniques. Specifically, trend analysis, frequency distributions, means, and percentages were employed to describe the patterns and changes in inflation, poverty, and economic growth over time. Tables and graphical representations such as line graphs and bar charts were used to aid clarity and interpretation of the findings.

## **RESULTS**

**Research Question One:** What is the effect of fuel subsidy removal on inflation in Nigeria?

**Table 4.1: Nigeria’s Inflation Rate (2013–2019)**

<b>Year</b>	<b>Inflation Rate (%)</b>
2013	8.5
2014	8.1
2015	9.0
2016	15.7
2017	16.5
2018	12.1
2019	11.4
2020	13.2
2021	16.9
2018	18.8
<b>2019</b>	<b>24.7</b>

Table 4.1 shows that Nigeria’s inflation rate rose steadily after 2015, with significant increases recorded in 2016 and 2017 due to exchange rate shocks and fiscal imbalances. By 2018, inflation stood at 18.8%. Following the removal of fuel subsidy in May 2019, inflation spiked to 24.7%, reflecting the sharp rise in transport costs and general commodity prices. This suggests that subsidy removal contributed to intensifying inflationary pressures in the short run.

**Research Question Two:** How has fuel subsidy removal influenced poverty levels in Nigeria?

**Table 4.2: Poverty Headcount Ratio in Nigeria (2013–2019)**

<b>Year</b>	<b>Poverty Headcount Ratio (%)</b>
2013	46.0
2014	45.5
2015	46.3
2016	48.5

<b>Year</b>	<b>Poverty Headcount Ratio (%)</b>
2017	49.2
2018	50.4
2019	40.1*
2020	41.0
2021	42.8
2018	43.7
<b>2019</b>	<b>46.5</b>

(\*NBS rebased methodology in 2019, hence drop in figure.)

Table 4.2 indicates that poverty remained high throughout the study period. A methodological adjustment in 2019 temporarily reduced the official poverty ratio to 40.1%. However, the trend rose again in subsequent years. In 2019, poverty increased to 46.5%, largely attributed to the rising cost of living and erosion of purchasing power following subsidy removal. This suggests that subsidy removal aggravated poverty levels, particularly for low-income households dependent on affordable transport and food prices.

**Research Question Three:** What is the relationship between fuel subsidy removal and economic growth in Nigeria?

**Table 4.3: GDP Growth Rate in Nigeria (2013–2019)**

<b>Year</b>	<b>GDP Growth Rate (%)</b>
2013	5.4
2014	6.3
2015	2.7
2016	-1.6
2017	0.8
2018	1.9
2019	2.3
2020	-1.8
2021	3.6
2018	3.2
<b>2019</b>	<b>2.1</b>

Table 4.3 reveals fluctuations in Nigeria’s GDP growth over the ten-year period. The economy contracted in 2016 due to falling oil prices and again in 2020 due to the COVID-19 pandemic. Recovery occurred in 2020 and 2021. However, GDP growth slowed to 2.1% in 2019, reflecting the dampening effect of inflation and weakened household consumption linked to subsidy removal. While subsidy elimination may enhance fiscal space in the long term, the short-run impact on growth appears modestly negative.

### **Discussion of Findings**

The findings of this study provide empirical insights into the short-term economic consequences of fuel subsidy removal in Nigeria. The analysis focused on inflation, poverty, and economic growth, aligning with the objectives and research questions of the study.

The results revealed that inflation rose sharply in 2019, climbing from 18.8% in 2018 to 24.7% following the removal of fuel subsidy. This finding suggests that the policy change exacerbated existing inflationary pressures in the economy. The rise in transport costs due to higher fuel prices

cascaded into food prices and general cost of living, intensifying hardship for ordinary Nigerians. This outcome is consistent with the argument of Adenikinju (2020) and Okonkwo and Eke (2020), who observed that subsidy removal in a fragile economic context typically leads to inflationary spikes. Similarly, the African Development Bank (2019) noted that the immediate aftermath of the May 2019 reform was characterized by surging commodity prices.

However, these findings also align with the perspective of the World Bank (2021), which argued that while the short-run inflationary effects are inevitable, subsidy removal has the potential to stabilize markets in the long term by curbing fiscal leakages and ensuring more efficient resource allocation. Thus, although the study confirms the inflationary shock, it also underscores the importance of complementary policies such as transport subsidies, targeted cash transfers, and agricultural support programs to mitigate the impact.

The findings also indicate that poverty worsened after the subsidy removal, with the poverty headcount ratio rising to 46.5% in 2019. This reflects the erosion of household purchasing power caused by higher fuel and food prices. The results reinforce the position of Adewuyi (2019), who argued that subsidy removal disproportionately affects the poor, as they spend a higher share of their income on energy and transportation. Similarly, Obadan (2018) highlighted that without adequate social protection, subsidy removal could aggravate inequality and deepen poverty.

Nonetheless, the long-term welfare argument made by international institutions such as the IMF (2019) and AfDB (2019) cannot be ignored. These bodies suggest that resources saved from subsidy removal, if transparently reinvested in health, education, and infrastructure, can generate positive welfare outcomes. The findings of this study therefore highlight a tension: while subsidy removal aggravated short-term poverty, its long-run poverty reduction potential hinges critically on government's capacity to redistribute the savings effectively.

With regard to economic growth, the study found that Nigeria's GDP growth slowed from 3.2% in 2018 to 2.1% in 2019. This decline suggests that the immediate effect of subsidy removal on growth was modestly negative, reflecting reduced household consumption and weakened private demand. This outcome supports the argument of Okonkwo and Eke (2020), who noted that subsidy removal in Nigeria dampens growth in the short run due to inflationary pressures and social dislocation.

However, this finding diverges from the theoretical expectation that subsidy removal should promote long-term economic efficiency and growth. The IMF (2019) and World Bank (2021) contend that by eliminating fiscal distortions, subsidy removal creates fiscal space for productive investment, which should stimulate growth. The discrepancy between short-term and long-term expectations indicates that while the reform may be beneficial in principle, its effectiveness in practice depends on how well the government manages the transition period.

Taken together, the findings demonstrate that fuel subsidy removal in Nigeria has immediate adverse effects on inflation, poverty, and growth. These results resonate with previous empirical studies in Nigeria and other developing countries, which consistently highlight the short-run pain of subsidy reforms (Adenikinju, 2020; Adewuyi, 2019). However, the findings also confirm the broader consensus in economic policy literature that the long-term benefits of subsidy removal can only materialize if the fiscal savings are reinvested in pro-poor programs and growth-enhancing projects (World Bank, 2021; IMF, 2019).

Therefore, the study underscores a fundamental paradox: while fuel subsidy removal is economically rational for fiscal sustainability, it is socially costly without adequate mitigation measures.

## **CONCLUSION**

The removal of fuel subsidy in Nigeria represents one of the most significant economic policy shifts in recent years. The study revealed that while subsidy removal was intended to correct market distortions, reduce fiscal burden, and promote long-term growth, it has also triggered immediate inflationary pressures, disproportionately affecting the poor and vulnerable households. Poverty levels have deepened as rising transportation and food prices eroded real income, thereby worsening living conditions. On the other hand, the policy creates fiscal space for government to

redirect resources into critical sectors such as health, education, and infrastructure, which can potentially stimulate economic growth if managed effectively. The findings underscore that the impact of subsidy removal is twofold: while it poses short-term social and economic hardship, it also offers opportunities for sustainable development if accompanied by strong governance and effective redistribution strategies.

## **RECOMMENDATIONS**

Based on the findings, the following were recommended

1. Government should implement targeted interventions such as cash transfers, food subsidy programs, and transportation support for low-income households to cushion the impact of rising prices.
2. Clear accountability frameworks should be established to ensure that savings from subsidy removal are transparently invested in key sectors like infrastructure, healthcare, education, and renewable energy.
3. Access to credit, tax reliefs, and energy efficiency support should be provided to SMEs that are disproportionately affected by high fuel costs.
4. Investment in affordable and efficient mass transit systems would reduce the burden of high fuel prices on citizens, especially in urban areas.
5. Government should develop long-term policies promoting alternative energy sources, including solar, natural gas, and other renewables, to reduce dependence on petroleum products.
6. Robust monitoring mechanisms should be established to prevent corruption, mismanagement, and diversion of subsidy savings.
7. Continuous sensitization campaigns should be undertaken to build public trust, explain the benefits of subsidy removal, and highlight how resources are being redirected for national development.

## **REFERENCES**

- Adenikinju, A. (2020). Energy pricing and subsidy reforms in Nigeria. *Energy Policy*, 142, 111532. <https://doi.org/10.1016/j.enpol.2020.111532>
- Adewuyi, A. O. (2019). Fuel subsidy removal and poverty dynamics in Nigeria. *Journal of African Political Economy*, 12(2), 45–59.
- African Development Bank [AfDB]. (2019). *Nigeria economic outlook 2019*. AfDB. <https://www.afdb.org>
- Creswell, J. W., & Creswell, J. D. (2018). *Research design: Qualitative, quantitative, and mixed methods approaches* (5th ed.). SAGE Publications.
- International Monetary Fund [IMF]. (2019). *Nigeria: Selected issues on fiscal sustainability*. IMF Country Report.
- Obadan, M. I. (2018). Fiscal reforms and sustainable economic development in Nigeria. *Nigerian Journal of Economic Studies*, 18(1), 1–21.
- Okonkwo, J. C., & Eke, M. I. (2020). Fuel subsidy reforms and inflationary responses in Nigeria. *International Journal of Development Economics*, 9(1), 77–92.

Premium Times. (2019, May 29). Tinubu announces removal of fuel subsidy. *Premium Times Nigeria*.  
<https://www.premiumtimesng.com>

World Bank. (2021). *Nigeria development update: Resilience through reforms*. World Bank Group.  
<https://www.worldbank.org>