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EFFECT OF OIL SUBSIDY REMOVAL ON NIGERIA'S ECONOMIC DEVELOPMENT

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Abstract

The article evaluates the effects of oil subsidy removal on Nigeria's economic development. The paper explores descriptive and qualitative analysis to investigate the economic implications of this significant policy decision, as the outcome of the descriptive analysis shows the component documents and characterizes the immediate and medium-term economic changes following the policy implementation, while the qualitative analysis employs the depth social-economic implications and stakeholders perspectives. The study draws on four theoretical frameworks: Dutch Disease theory, which emphasis on how the exploitations of natural resources can lead to economic distortion, Public Choice Theory, which applies economic principles to political behaviors, examining how individual rational choices by political actors, bureaucrats, and interest groups shape public policy, New Institutional Economics Theory, which emphasizes on the crucial roles of institutions in shaping economic outcome, Economic Theory and subsidy Distortions which is rooted in public finance and welfare economics. The study assesses the historical context of oil subsidy since the return to democratic governance in 1999 which reflects a complex interplay of political economy factor, economic pressures, and social dynamics that have shaped the country's approach to petroleum product pricing and distribution and multifaceted economic designs with far-reaching implications for Nigeria's developmental trajectory. The paper concludes that the sustainability of the oil subsidy removal depends critically on the government's ability to maintain fiscal discipline while addressing the social costs of the adjustment. The article recommends long-term sustainability measures through robust investment in education, healthcare and skills development to build human capital necessary for sustained economic growth.

Keywords: *Petroleum Industry Act, Oil Subsidy, Public/Private Sector, Comprehensive Economic Impact.*

1. Introduction

Nigeria's economy has been predominantly oil-driven since the discovery of crude oil in commercial quantities in the 1950s. Over the decades, petroleum exports have accounted for over 90% of foreign exchange earnings and about 80% of government revenues. This heavy reliance on oil has made the country vulnerable to global oil price fluctuations, leading to recurrent fiscal deficits and macroeconomic instability. The Nigerian government's intervention in the petroleum sector through fuel subsidies was initially introduced in the 1970s as a welfare measure to stabilize domestic fuel prices and protect citizens from the volatility of international oil markets.

The fuel subsidy regime, which began in the 1970s as a policy tool to cushion citizens from global oil price volatilities, evolved into a significant fiscal burden that has constrained government spending on critical infrastructure and social services. By 2022, Nigeria was spending approximately $10 billion annually on fuel subsidies, representing about 2.5% of the country's Gross Domestic Product (GDP).

The removal of fuel subsidies has been a recurring debate in Nigeria's economic policy discourse, with previous attempts by successive administrations meeting stiff resistance from organized labor and civil society group. Fuel subsidies in Nigeria were enormous – around USD 3.9 billion – almost double the health budget, creating significant opportunity costs for developmental spending (Chen et al., 2022). International financial institutions, particularly the International Monetary Fund (IMF) and World Bank, have consistently advocated for subsidy removal as part of broader economic reforms aimed at fiscal sustainability and resource optimization.

President Bola Ahmed Tinubu's inauguration on May 29, 2023, marked a watershed moment in Nigeria's economic policy trajectory when he announced the immediate removal of fuel subsidies during his inaugural address (Adebayo, 2023). At his inauguration on Monday, Tinubu announced the total removal of the highly controversial but popular fuel subsidy, resulting in high prices and long queues nationwide. This decisive policy action, implemented without the gradual phase-out approach recommended by many economists, represents the most significant economic reform in Nigeria's recent history and has far-reaching implications for the country's development trajectory.

The timing of this policy reform coincides with a period of global economic uncertainty, characterized by inflationary pressures, supply chain disruptions, and energy market volatilities stemming from geopolitical tensions (World Bank, 2023). Nigeria's economy, already grappling with high inflation rates, unemployment, and infrastructural deficits, faces the dual challenge of managing the immediate socio-economic disruptions of subsidy removal while positioning itself for sustainable long-term growth.

However, what began as a temporary economic cushion gradually morphed into a massive fiscal burden. By 2022, Nigeria was spending approximately $10 billion annually on fuel subsidies—equivalent to 2.5% of its GDP (Adeosun et al., 2023). This expenditure far exceeded allocations to critical sectors such as healthcare, education, and infrastructure, raising concerns about opportunity costs and inefficient resource allocation. For instance, Nigeria's fuel subsidy expenditure in 2022 was nearly double its entire health budget (Chen et al., 2022), exacerbating the country's developmental challenges.

Historical Attempts at Subsidy Removal and Public Resistance

The debate over fuel subsidy removal has been a recurring theme in Nigeria's economic policy landscape. Successive administrations—from Olusegun Obasanjo (2003, 2012) to Goodluck Jonathan (2012) and Muhammadu Buhari (2016, 2020) attempted partial or full deregulation of petroleum prices. However, these efforts were met with fierce resistance from labor unions, civil society organizations, and the general public, leading to nationwide protests and strikes (Aregbeshola, 2017). The opposition stemmed from fears of hyperinflation, increased transportation costs, and worsening poverty levels, particularly in a country where over 40% of the population lives below the poverty line (World Bank, 2022).

International Pressure and Economic Reforms: International financial institutions, including the International Monetary Fund (IMF) and the World Bank, have long advocated for subsidy removal as part of broader structural reforms to reduce fiscal deficits, promote market-based pricing, and free up resources for critical infrastructure and social services (Coady et al., 2019).

Tinubu's Bold Policy Shift and Its Immediate Impact

The inauguration of President Bola Ahmed Tinubu on May 29, 2023, marked a pivotal moment in Nigeria's economic policy. In his inaugural address, Tinubu announced the immediate and complete removal of fuel subsidies, bypassing the gradual phase-out approach previously recommended by economists (Adebayo, 2023). This decision triggered an instant surge in fuel prices—from ₦185 per liter to over ₦500 per liter leading to widespread panic buying, long queues at filling stations, and heightened inflationary pressures. The policy's timing is particularly critical, as Nigeria—already grappling with high inflation (22.4% as of 2023), unemployment (33.3%), and weak economic growth (2.9% in 2023)—faces additional pressures from global energy market volatility and geopolitical tensions (World Bank, 2023).

Broader Implications for Nigeria's Development Trajectory

The removal of fuel subsidies represents one of Nigeria's most significant economic reforms in decades, with far-reaching implications for: Fiscal Sustainability – Freeing up billions of dollars for infrastructure, healthcare, and education. Inflation and Cost of Living – Immediate spike in transportation, food, and services costs. Social Welfare – Potential need for targeted cash transfers or palliative measures to cushion vulnerable populations. Investor Confidence – Possible boost in foreign direct investment (FDI) if savings are channeled into productive sectors.

Problem of the Study

Nigeria's fuel subsidy regime has long been identified as one of the most significant drains on the country's fiscal resources, creating a paradoxical situation where an oil-producing nation subsidizes petroleum products for domestic consumption at the expense of critical developmental investments. The persistence of fuel subsidies has contributed to several structural problems in Nigeria's economy, including fiscal deficit expansion, currency devaluation pressures, widespread corruption, smuggling activities, and market distortions that have hindered the development of a competitive petroleum downstream sector. President Tinubu's immediate removal of fuel subsidies on May 29, 2023, without adequate preparation or phased implementation, has generated significant economic and social disruptions across the country, with petrol prices nearly tripling and causing spikes in transport costs that affect small businesses and millions of households dependent on petrol generators due to inadequate electricity supply.

The Aim

The primary aim of this study is to critically examine and evaluate the economic development implications of President Tinubu's fuel subsidy removal policy in Nigeria from May 29, 2023, with particular focus on assessing the policy's impact on key macroeconomic indicators and sectoral performance. The Objective is to analyze the immediate economic responses to the fuel subsidy removal policy implementation between May 2023, this objective seeks to examine the short-term economic adjustments, including price movements, inflation dynamics, exchange rate fluctuations, and initial market reactions that occurred following the policy announcement and implementation. This study holds significant importance for multiple stakeholders within Nigeria's economic development landscape and contributes to the broader discourse on fuel subsidy reform in developing economies. The research provides timely and critical analysis of one of the most consequential economic policy decisions in Nigeria's recent history, offering evidence-based insights that can inform future policy formulation and implementation strategies.

Method of Data Analysis

The collected data was analyzed using both descriptive and qualitative methods to provide a comprehensive understanding of the subsidy removal's effects on Nigeria's economic development. 1. Descriptive Analysis: Descriptive statistical analysis was employed to summarize and present quantitative data in meaningful ways (Field, 2018). This involved calculating measures of central tendency (mean, median, mode) and measures of dispersion (standard deviation, range) for key economic indicators including inflation rates, fuel prices, exchange rates, GDP growth rates, and employment figures (Gravetter & Wallnau, 2016).II. Qualitative Analysis: Qualitative data analysis was conducted using thematic analysis to identify, analyze, and report patterns or themes within the data collected from interviews, focus group discussions, and open-ended survey responses (Braun & Clarke, 2006). This inductive approach allowed themes to emerge from the data rather than being imposed through predetermined categories (Thomas, 2006).

2. Literature Review

The removal of petroleum subsidy by President Bola Ahmed Tinubu's administration on May 29, 2023, represents one of the most significant economic policy shifts in Nigeria's recent history. This policy decision, announced during the presidential inauguration, has generated considerable academic discourse and public debate regarding its implications for Nigeria's economic development trajectory.

3. Conceptual Clarification

Economic Development, as conceptualized in this study, extends beyond simple GDP growth to encompass improvements in living standards, structural transformation, institutional quality, and sustainable progress toward achieving development goals (Sen, 1999; Todaro & Smith, 2020).

Oil subsidy removal represents a fundamental policy intervention that eliminates government financial support for petroleum products, allowing market forces to determine fuel prices. In Nigeria's context, this involves dismantling a complex system of price controls, import subsidies, and distribution mechanisms that have characterized the petroleum sector for decades (Adenikinju, 2009).

Theoretical Framework

Dutch Disease Theory

The Dutch Disease Theory, originally conceptualized by Corden and Neary (1982) and further developed by Krugman (1987), provides a crucial framework for understanding the economic dynamics of resource-rich countries like Nigeria. This theory explains how the discovery or exploitation of natural resources can lead to economic distortions that ultimately harm long-term economic development, despite the apparent windfall from resource revenues. The theory posits two primary mechanisms through which resource abundance can harm economic development: the resource movement effect and the spending effect. The resource movement effect occurs when the booming resource sector attracts factors of production, particularly labor and capital, away from other tradable sectors, leading to their decline (Corden & Neary, 1982). The spending effect manifests when increased government revenues from resource exports lead to higher domestic spending, causing real exchange rate appreciation and making non-resource tradable less competitive internationally (Krugman, 1987). The removal of fuel subsidies under President Tinubu's administration can be analyzed through the Dutch Disease lens as a potential mechanism for addressing some of the resource curse symptoms. By eliminating the artificial cheapening of fuel, the policy may encourage more efficient resource allocation, promote domestic refining investments, and free up fiscal resources for productive investments in infrastructure, education, and healthcare (Hausmann & Rigobon, 2003). 2. Public Choice Theory: Public Choice Theory, pioneered by Buchanan and Tullock (1962) and further developed by scholars like Olson (1971) and Becker (1983), provides essential insights into the political economy of economic policy-making, including decisions about subsidies. This theory applies economic principles to political behavior, examining how individual rational choices by political actors, bureaucrats, and interest groups shape public policy outcomes. The theory's core premises is that political actors, like economic actors, are motivated by self-interest and seek to maximize their utility (Buchanan & Tullock, 1962). President Tinubu's decision to remove fuel subsidies can be analyzed through Public Choice Theory as an attempt to break free from the political economy constraints that have perpetuated economically inefficient policies. 3. New Institutional Economics Theory: New Institutional Economics (NIE) Theory, developed by scholars like Coase (1937), North (1990), and Williamson (1985), emphasizes the crucial role of institutions in shaping economic outcomes. This theoretical framework is particularly relevant for understanding how fuel subsidy removal affects economic development through its impact on institutional quality, transaction costs, and governance structures. 4. Economic Theory and Subsidy Distortions: The theoretical foundation for fuel subsidy removal is deeply rooted in public finance and welfare economics. Classical economic theory posits that subsidies create market distortions that lead to inefficient resource allocation and generate deadweight losses (Coady et al., 2019). The distortionary effects of subsidies manifest through price signals that fail to reflect true economic costs, encouraging overconsumption and misallocation of resources.

Historical Evolution of Oil Subsidy and Economic Development in Nigeria

The relationship between oil subsidy policies and economic development in Nigeria represents one of the most complex and contentious issues in the country's fiscal management discourse. Oil subsidies, fundamentally designed as government interventions to reduce the domestic price of petroleum products below market levels, have evolved into a multifaceted economic phenomenon with far-reaching implications for Nigeria's developmental trajectory (Adenikinju, 2009). The subsidy mechanism operates through the Nigerian National Petroleum Corporation (NNPC) and various downstream operators who import refined petroleum products and sell them at government-regulated prices below the actual cost of importation and distribution.

From a macroeconomic perspective, oil subsidies in Nigeria have created a paradoxical situation where the nation's primary source of foreign exchange earnings simultaneously becomes a significant drain on government resources. The subsidy burden, which has fluctuated between $3 billion to $8 billion annually over the past two decades, represents a substantial portion of government expenditure that could otherwise be channeled toward critical infrastructure development, education, healthcare, and poverty alleviation programs (Nwachukwu & Chike, 2011). This resource allocation dilemma underscores the opportunity cost inherent in maintaining subsidies, particularly when considering Nigeria's massive infrastructure deficit estimated at over $100 billion.

The macroeconomic stability implications of oil subsidies cannot be overlooked. The unpredictable nature of subsidy expenditures, which fluctuate with international oil prices and exchange rates, complicates fiscal planning and budget implementation. During periods of high oil prices, subsidy costs can escalate rapidly, forcing government to either increase borrowing or reduce other expenditures. This fiscal volatility undermines medium-term economic planning and contributes to procyclical fiscal policies that amplify rather than moderate economic cycles (Aregbeyen & Kolawole, 2015).

The evolution of oil subsidy policy in Nigeria since the return to democratic governance in 1999 reflects a complex interplay of political economy factors, economic pressures, and social dynamics that have shaped the country's approach to petroleum product pricing and distribution. Understanding this historical trajectory provides crucial insights into the persistence of subsidy policies despite their recognized economic inefficiencies and the challenges associated with policy reform in Nigeria's democratic context.

The foundation of Nigeria's modern subsidy regime can be traced to the military era, but its institutionalization and expansion occurred significantly during the Fourth Republic beginning in 1999. President Olusegun Obasanjo's administration (1999-2007) inherited a subsidy system that was already embedded in Nigeria's political economy, but the period marked the beginning of serious attempts to rationalize petroleum product pricing. The administration's approach was characterized by gradual price adjustments and attempts to build consensus around subsidy reform (Ikelegbe, 2005).

The Buhari administration's final years were characterized by intense debates about the timing and modalities of complete subsidy removal. The administration set multiple deadlines for subsidy elimination, only to postpone them due to political considerations and concerns about social unrest. The passage of the Petroleum Industry Act (PIA) in 2021 provided a legal framework for sector deregulation, but implementation remained contentious.

Throughout this historical evolution, several recurring themes emerge. First, the political economy of subsidy reform has consistently trumped economic rationality, with electoral considerations often determining policy direction. Second, the lack of complementary social protection programs has made subsidy removal appear as an additional burden on already struggling populations. Third, the absence of functional refineries has meant that subsidy debates have been divorced from broader discussions about industrial development and economic diversification.

The period also revealed the resilience of vested interests that benefit from the subsidy system. These include importers, distributors, and various intermediaries who have built business models around the arbitrage opportunities created by subsidized petroleum products. The political influence of these groups has often complicated reform efforts and contributed to policy reversals.

Previous Attempts at Subsidy Removal and Their Outcomes

The history of subsidy removal attempts in Nigeria presents a compelling case study of the challenges inherent in reforming popular but economically inefficient policies in democratic settings. Each attempt at subsidy reform has provided valuable lessons about the political economy of policy change, the importance of stakeholder engagement, and the need for comprehensive social protection measures to accompany economic reforms. Analyzing these attempts reveals patterns of success and failure that offer insights for future policy initiatives.

The first significant attempt at comprehensive subsidy reform occurred during the Obasanjo administration in 2003, when the government announced its intention to fully deregulate the downstream petroleum sector. The policy framework envisioned a market-driven pricing system where petroleum product prices would reflect international market conditions and exchange rate movements. The administration argued that deregulation would improve efficiency, reduce corruption, and free up fiscal resources for development projects (Idemudia & Ite, 2006).

However, the implementation of this policy proved problematic from the outset. The government's consultation process was inadequate, failing to build sufficient consensus among key stakeholders including labor unions, civil society organizations, and the general public. When fuel prices increased from ₦40 to ₦50 per liter, the response was swift and decisive. The Nigeria Labour Congress organized a nationwide strike that paralyzed economic activities for several days. The intensity of public opposition forced the government to enter into negotiations with labor leaders, ultimately resulting in a compromise that maintained some level of subsidization while allowing for periodic price adjustments.

The outcome of this initial attempt established several important precedents. First, it demonstrated that subsidy reform could not be implemented through executive fiat without adequate consultation and consensus-building. Second, it revealed the organizational capacity of labor unions and civil society groups to mobilize effective resistance to unpopular policies. Third, it showed that the general public viewed fuel subsidies as an entitlement rather than a policy choice, making reform politically costly.

The lessons from 2003 influenced subsequent approaches, with the Obasanjo administration adopting a more gradual strategy of periodic price adjustments rather than wholesale deregulation. Between 2004 and 2007, fuel prices were adjusted several times, with each increase accompanied by extensive public communication campaigns and negotiations with labor unions. While this approach reduced the shock of sudden price changes, it also created uncertainty and prevented the emergence of a stable pricing regime that could attract private investment in refining infrastructure. After nearly two weeks of sustained protests, the Jonathan administration was forced to partially reverse the policy, reducing fuel prices to ₦97 per liter. This partial reversal was presented as a compromise, maintaining some level of subsidy reduction while responding to public concerns. However, the episode had lasting political consequences for the Jonathan administration, contributing to perceptions of policy inconsistency and weak leadership that would later affect electoral outcomes.

The 2012 experience yielded several important insights about subsidy reform in Nigeria. First, it demonstrated the critical importance of timing and sequencing in policy implementation. The decision to remove subsidies at the beginning of the year, when Nigerians were already facing increased expenses, amplified public resistance. Second, it highlighted the need for complementary measures to cushion the impact on vulnerable populations. The government's failure to implement targeted social protection programs before subsidy removal made the policy appear callous and insensitive to public welfare.

Third, the episode revealed the power of coalition politics in Nigeria's democratic context. The success of the "Occupy Nigeria" movement demonstrated that well-organized civil society groups could effectively challenge government policies through sustained mobilization, the timing and sequencing of reforms have proven crucial to their political sustainability. Attempts implemented during periods of economic hardship or political uncertainties have faced stronger resistance than those undertaken during more favorable conditions. This highlights the importance of strategic planning and political timing in implementing controversial economic reforms. Finally, the various attempts have demonstrated the resilience of Nigeria's democratic institutions and civil society. The ability of organized groups to mobilize effective resistance to unpopular policies reflects the strength of democratic norms and the importance of public participation in policy processes. While this has complicated reform efforts, it has also ensured that government policies remain subject to public scrutiny and democratic accountability.

Nigeria's Economic Structure and Dependence on Oil Revenue

Nigeria's economic architecture represents a classic case of resource curse manifestation, where abundant natural resource endowments have paradoxically constrained rather than facilitated comprehensive economic development. The country's economic structure fundamentally shaped by over five decades of oil exploitation, exhibits characteristics typical of rentier states, with profound implications for fiscal sustainability, economic diversification, and long-term development prospects. Understanding this structural configuration is essential for appreciating the complexities surrounding oil subsidy policies and their broader economic ramifications.

The petroleum sector's dominance in Nigeria's economy cannot be overstated. Oil revenues have consistently accounted for over 80% of government revenues and more than 90% of foreign exchange earnings since the 1970s, creating an economic structure that economist Michael Ross (2012) describes as "petro-state syndrome." This overwhelming dependence has fundamentally altered the relationship between the state and citizens, with government revenues flowing primarily from external sources rather than domestic taxation, thereby weakening the social contract and accountability mechanisms that typically characterize robust democracies.

Nigeria's Gross Domestic Product (GDP) composition reflects this structural imbalance, with the oil sector contributing approximately 8-10% to GDP by volume but accounting for the vast majority of government revenues due to the fiscal regime governing petroleum operations. The non-oil sector, while larger in terms of GDP contribution, remains largely informal and generates minimal government revenue. Agriculture, which employs about 70% of the rural population, contributes roughly 24% to GDP but less than 2% to government revenues, highlighting the disconnect between economic activity and fiscal capacity (National Bureau of Statistics, 2022).

The manufacturing sector's contribution to GDP has declined from over 15% in the 1980s to less than 10% currently, reflecting the Dutch disease phenomenon where resource abundance leads to currency appreciation and loss of competitiveness in tradable non-resource sectors. This deindustrialization has been compounded by infrastructure deficits, policy inconsistencies, and the importation culture facilitated by oil revenues. The result is an economy that imports most manufactured goods, including refined petroleum products, despite being a major crude oil producer (Ogbeide & Agu, 2015).

The service sector, primarily driven by telecommunications, banking, and trade, has emerged as the largest component of GDP, accounting for approximately 50% of economic output. However, much of this growth has been consumption-driven rather than productivity-enhancing, reflecting the spending of oil rents rather than genuine economic transformation. The telecommunications boom, while significant in improving connectivity and creating employment, has been largely dependent on imported equipment and technology, limiting its backward linkage effects on the broader economy.

The private sector's role in Nigeria's economy has been constrained by the dominance of oil revenues in government finances. While successful private enterprises exist, particularly in telecommunications, banking, and some manufacturing subsectors, the broader private sector faces challenges including policy uncertainty, inadequate infrastructure, and competition from imports financed by oil revenues. The emergence of what economists call "Dutch disease" has made non-oil tradable sectors less competitive, limiting their growth potential and employment creation capacity.

Pre-2023 Economic Indicators and Challenges

The economic landscape of Nigeria in the period leading up to 2023 was characterized by a complex array of challenges that reflected both the structural weaknesses inherent in the country's oil-dependent economy and the cumulative effects of various internal and external shocks. Understanding these pre-2023 economic indicators and challenges provides crucial context for appreciating the significance of subsequent policy reforms, including fuel subsidy removal, and their potential impacts on the broader economy.

Nigeria's GDP growth performance in the years preceding 2023 exhibited the volatility typical of commodity-dependent economies. Following the 2016 recession, which saw the economy contract by 1.6%, recovery remained fragile and uneven. Real GDP growth averaged approximately 2.5% between 2017 and 2022, significantly below the population growth rate of about 2.6%, resulting in declining per capita incomes. This growth pattern reflected the economy's continued vulnerability to oil price shocks and the limited progress in economic diversification efforts (World Bank, 2022).

The sectorial composition of growth revealed persistent structural challenges. While the non-oil sector accounted for over 90% of GDP, its growth was largely driven by population increases rather than productivity improvements. The agricultural sector, despite employing the majority of the rural population, experienced sluggish growth due to security challenges, climate change impacts, and limited access to modern inputs and credit. Manufacturing growth remained constrained by infrastructure deficits, particularly unreliable electricity supply, and competition from imports facilitated by an overvalued exchange rate in periods of high oil prices.

The labor market continued to exhibit characteristics of underdevelopment, with high unemployment, extensive informality, and low productivity. Skills mismatches persisted, with educational systems producing graduates whose skills did not align with market demands. The demographic dividend potential remained unrealized due to limited job creation in productive sectors and inadequate investment in human capital development.

Gender disparities persisted across various economic indicators. Women's labor force participation remained below potential, and access to credit and productive resources was limited. Gender gaps in education had narrowed at primary levels but persisted in higher education and technical fields. These disparities represented not only social justice concerns but also economic inefficiencies that limited overall growth potential.

Environmental challenges posed increasing threats to economic sustainability. Climate change impacts, including desertification in the north and coastal erosion in the south, affected agricultural productivity and required adaptation investments. Environmental degradation from oil extraction activities continued to impose costs on affected communities and the broader economy. The lack of environmental management capacity limited the country's ability to address these challenges effectively.

International Best Practices in Fuel Subsidy Management

The global experience with fuel subsidy management offers valuable insights for countries like Nigeria seeking to balance energy accessibility, fiscal sustainability, and economic efficiency. International best practices in this area have evolved significantly over the past several decades, shaped by diverse country experiences ranging from successful gradual reforms to dramatic policy reversals. Understanding these practices provides crucial guidance for designing and implementing sustainable subsidy policies that can achieve social objectives while minimizing economic distortions and fiscal burdens.

The Indonesian experience represents one of the most frequently cited examples of successful fuel subsidy reform in a developing country context. Indonesia's approach, implemented over multiple phases between 2005 and 2015, demonstrated the importance of gradual implementation, robust communication strategies, and complementary social protection measures. The Indonesian government began by removing subsidies on premium gasoline while maintaining them on regular gasoline used by lower-income households. This targeted approach allowed the government to reduce fiscal burdens while protecting vulnerable populations (Beaton & Lontoh, 2010).

The timing of reforms has also emerged as an important consideration. International experience suggests that reforms are more likely to succeed when implemented during periods of relatively low international oil prices, strong fiscal positions, and political stability. However, the window for reform may be limited, requiring governments to act decisively when favorable conditions arise.

Institutional capacity requirements for successful subsidy reform are significant and often underestimated. Countries need robust systems for beneficiary identification and targeting, efficient payment mechanisms, monitoring and evaluation capabilities, and effective grievance and appeals processes. Building these capacities often requires substantial investments in technology, human resources, and institutional development that must be planned well in advance of reform implementation.

The role of international support in facilitating subsidy reforms has been significant in many country experiences. International financial institutions have provided both financial resources and technical assistance to support reform processes. However, the effectiveness of international support depends on its alignment with domestic priorities and the existence of strong local ownership of reform processes.

4. Policy Implementation and Immediate Economic Responses A Comprehensive Analysis

President Bola Ahmed Tinubu's decision to remove fuel subsidies represents one of the most significant economic policy shifts in Nigeria's recent history. During his inauguration on May 29, 2023, President Tinubu declared that fuel "subsidy is gone," noting that the outgoing administration had made no provision for it in the June–December 2023 budget. This announcement marked an immediate departure from decades of fuel subsidization that had become a significant burden on Nigeria's fiscal resources.

The subsidy removal policy was not an impulsive decision but rather a continuation of campaign promises made during the 2023 electoral period. His manifesto, "Renewed Hope 2023," explicitly stated on page 37: "We shall phase out the fuel subsidy", indicating a planned approach to subsidy reform. The announcement caught many stakeholders by surprise, as his prepared speech initially referred to "phasing out" the subsidy, in line with his manifesto, but the final declaration was more immediate and decisive. The 2023 budget had provided for the subsidy until June 30, making the immediate removal a bold policy move that demonstrated the new administration's commitment to fiscal reform.

Implementation Strategies and Government Palliative Measures

Recognizing the potential social and economic disruptions that would accompany subsidy removal, the Tinubu administration developed a comprehensive palliative framework to cushion the impact on Nigerian citizens. Tinubu announced a 500 billion naira package which included mass transit buses and cheap loans to farmers and small businesses to boost employment. This represented a strategic approach to policy implementation that sought to balance fiscal consolidation with social protection.

The implementation strategy involved multiple phases and components. President Tinubu asked the House of Representatives to amend the 2022 Supplementary Appropriations Act to provide N500 billion to fund palliative measures against the impact of fuel subsidy removal. On July 13, 2023, the House of Representatives approved the request for the amendment to extract N500 billion from the budget for palliatives.

A key component of the implementation strategy was direct cash transfers to vulnerable households. President Tinubu unveiled his administration's plan for a monthly N8,000 transfer to 12 million of the poorest households in the country for six months, in a bid to cushion the effects of the removal of fuel subsidy. This targeted approach aimed to provide immediate relief to the most vulnerable segments of the population while the broader economy adjusted to the new fuel pricing regime. The implementation also included infrastructure development components. Earlier on Monday, the government said it had released grains as part of efforts to address food security concerns that could be exacerbated by increased transportation costs following subsidy removal. The comprehensive nature of these measures reflected an understanding of the interconnected effects of fuel price increases across various sectors of the economy.

Immediate Market Reactions and Price Adjustments

The market response to President Tinubu's subsidy removal announcement was immediate and dramatic. In a knee-jerk reaction to the confirmation of fuel subsidies removal, marketers and operators increased petrol pump price to N210-N500 per liter. This represented a significant increase from pre-announcement levels and demonstrated the immediate pass-through effect of policy changes on consumer prices. The magnitude of price adjustments was substantial and varied across different regions of the country. From about N200 per liter, the product is selling for about N1,200 in several parts of the country, representing a six-fold increase in some areas. This dramatic price increase reflected not only the removal of subsidies but also supply chain disruptions and regional variations in distribution costs.

Financial markets also responded positively to the announcement, particularly international investors who had long advocated for subsidy removal. Nigeria Eurobonds and stocks rallied following Tinubu's pledges to end fuel subsidy, indicating investor confidence in the reform program. The positive market reaction from the capital markets contrasted sharply with the consumer market disruptions, highlighting the different perspectives on the policy reform. The immediate market reactions were characterized by both price volatility and supply chain disruptions. Fuel price hike and scarcity trailed Tinubu's subsidy removal announcement, as distributors and retailers adjusted their pricing strategies and inventory management practices to the new policy environment. The scarcity issues were partly attributed to speculative behavior and the time required for market mechanisms to adjust to the new pricing regime.

The government's fiscal position showed immediate improvement as a result of the policy change. Nigeria saved over 1 trillion naira ($1.32 billion) in just over two months by scrapping the costly subsidy on petrol, demonstrating the significant fiscal burden that the subsidy had represented. This immediate fiscal relief provided the government with resources to fund the palliative measures and other development programs.

Impact on Inflation Rates and Cost of Living

The removal of fuel subsidies had profound implications for Nigeria's inflation trajectory and overall cost of living. The policy change contributed to significant inflationary pressures across the economy, as fuel costs represent a major component of transportation and production costs in Nigeria. Nigeria's inflation rate soared to 34.60% in November 2024, signaling a sharp increase in the cost of goods and services nationwide, marking a 0.72% rise from the 33.88% record. This represented a continuation of the inflationary trend that began following the subsidy removal. Nigeria's inflation rate rose to a 28-year high in June 2024, with the rate surging to 34 percent in May 2024, indicating the persistent nature of the inflationary pressures. The government's approach to managing the inflationary impact involved both fiscal and monetary measures. However, Nigeria recently rebased its consumer price index (CPI) from 2009 to 2024, leading to a significant drop in the reported inflation rate from 34.80% to 24.48%, though this technical adjustment did not change the underlying cost of living challenges faced by citizens.

The persistent inflation and cost of living increases highlighted the complex nature of economic adjustment following major policy reforms. While the subsidy removal achieved its primary objective of fiscal consolidation, the inflationary consequences demonstrated the need for comprehensive economic management strategies to address the broader implications of such significant policy changes.

Effects on Transportation and Logistics Sectors

The removal of fuel subsidies by President Bola Tinubu on May 29, 2023, had immediate and profound effects on Nigeria's transportation and logistics sectors. The policy change resulted in a nearly threefold increase in petrol prices, fundamentally altering the cost structure of transportation services across the country (Bloomberg, 2023). The Nigerian National Petroleum Co. raised the cost to 488 naira ($1.05) a liter following the subsidy removal announcement, creating unprecedented challenges for the transportation sector. The logistics sector's response to these changes involved strategic adjustments to maintain viability. Many transportation companies were forced to reduce their fleet operations, consolidate routes, and increase freight charges to maintain profitability. Small-scale transportation operators, including motorcycle taxis (okada) and commercial tricycles (keke), faced particular challenges as they typically operate on thin profit margins.

Public and Private Sector Responses

The public and private sectors responded differently to the oil subsidy removal, with the government implementing various measures to justify and mitigate the effects of the policy while private sector entities adapted their operations to the new economic reality.

Government Response and Policy Justification

The Tinubu administration's response to the subsidy removal was multifaceted, focusing on redirecting the saved resources toward infrastructure development and social programs. "We shall instead re-channel the funds into better investment in public infrastructure, education, health care and jobs that will materially improve the lives of millions" President Tinubu declared (Africa Renewal, 2023). This represented a fundamental shift in government spending priorities, moving from consumption subsidies to capital investments.

The government emphasized the fiscal benefits of the policy, arguing that the subsidy had become unsustainable. In the 2023 budget, N3.36 trillion was provided for fuel subsidy up to June 2023, while N2.23 trillion was projected for oil revenue for the year (Nigerian Economic Summit Group, 2023). This situation highlighted the fiscal strain that the subsidy placed on government finances, as the cost of subsidies exceeded projected oil revenues.

Private Sector Adaptation and Response

The private sector's response to the subsidy removal was characterized by strategic adaptations to manage increased operational costs and maintain competitiveness. President Bola Tinubu announced the removal of fuel subsidies to address decades-long inefficiencies in the downstream oil and gas sector and free up fiscal resources for development priorities (Nigerian Economic Summit Group, 2025). However, the private sector faced significant challenges in adjusting to the new cost structure.

Manufacturing companies, particularly those with energy-intensive operations, experienced substantial increases in production costs. Many businesses were forced to implement cost-cutting measures, including workforce reductions and operational scaling down. The telecommunications and banking sectors, which maintain extensive networks requiring significant transportation for maintenance and operations, also faced increased operational costs. The private sector's response also included advocacy for government intervention and support measures.

Social Reactions and Civil Society Responses

Labor Union Responses and Strike Actions: The Nigerian Labour Congress (NLC) and Trade Union Congress (TUC) led the most organized opposition to the subsidy removal. The Nigerian Labour Congress (NLC) said ending the fuel subsidy was "hasty with no thought-out plan to cushion the effects on workers and Nigerians" (Al Jazeera, 2023). The labor unions argued that the policy was implemented without adequate consultation or preparation of mitigating measures. Civil society organizations played a crucial role in mobilizing opposition to the subsidy removal. The United Action Front of Civil Society, the umbrella platform for organised civil society backed the NLC's planned strike action (Sahara Reporters, 2023). This coordination between labor unions and civil society organizations created a broad coalition opposing the policy. The civil society response extended beyond organized groups to include grassroots mobilization Long-term Social Impact and Adaptation

5. Comprehensive Economic Impact Analysis

Macroeconomic Effects: GDP Growth, Inflation, and Exchange Rates

The removal of oil subsidies by President Tinubu on May 29, 2023, had profound macroeconomic implications for Nigeria, affecting key indicators including GDP growth, inflation rates, and exchange rate stability. The policy implementation coincided with significant economic reforms that fundamentally altered Nigeria's macroeconomic landscape.

GDP Growth Dynamics: Nigeria's economic growth performance following the subsidy removal showed mixed results, with declining growth rates in 2023 despite policy reforms. Economic growth in Nigeria slowed from 3.3% in 2022 to 2.9% in 2023 due to high inflation and sluggish growth in the global economy (African Development Bank, 2024). This deceleration occurred despite the government's expectations that subsidy removal would stimulate economic growth through improved fiscal space and resource allocation.

The growth trajectory for 2024 and beyond remained modest, with international organizations projecting continued but subdued expansion. Growth is expected by the IMF to continue in 2025, though at a subdued rate of about 3%, less than the 4% projected for sub-Saharan African countries in 2025. This below-regional-average performance highlighted the persistent challenges facing the Nigerian economy despite the implementation of structural reforms. The oil sector's contribution to GDP growth showed particular volatility following the subsidy removal. The real growth of the oil sector was 1.48% (year-on-year) in Q4 2024, indicating a decrease of 10.64% points relative to the rate recorded in the corresponding quarter of 2023 (12.11%) (National Bureau of Statistics, 2024). This decline in oil sector performance contradicted expectations that subsidy removal would improve sector efficiency and productivity.

The government's response to sluggish growth included increased budgetary allocations for infrastructure and development projects. In 2024 President Bola Tinubu sought to increase the 2024 budget by $13.7 billion to $77.3 billion. The proposed additional funds were $7.1 billion for infrastructure projects and $6.7 billion for recurrent expenditure (Wikipedia, 2024). This expansionary fiscal approach aimed to stimulate economic activity and counteract the contractionary effects of subsidy removal.

Inflation Trajectory and Price Dynamics: The subsidy removal triggered severe inflationary pressures that became one of the most significant macroeconomic challenges facing Nigeria. Headline inflation increased to 34.2 percent in June 2024 from 22.8 percent in June 2023 and 34.0 percent in May 2024 (Nigerian Economic Summit Group, 2024). This dramatic increase represented a 28-year high and demonstrated the immediate impact of removing price controls on petroleum products. The inflationary spiral continued throughout 2024, with some periods showing even higher rates. The uglier consequence of the currency's slide has been its effect on inflation, which ended 2024 at 35 percent (Chatham House, 2025). This persistent high inflation eroded purchasing power and created significant economic hardship for Nigerian households and businesses.

The naira depreciated by 69% between June 2023 when the foreign exchange market was liberalised and the middle of February 2024. Currency depreciation has increased import costs. Nigeria is an import-dependent economy, and Nigerian importers are purchasing goods at prices that are already very high. This combination of currency depreciation and subsidy removal created a double shock to the price level. Exchange Rate Volatility and Currency Dynamics: The fiscal improvements resulting from subsidy removal had mixed effects on exchange rate stability. Because of the naira's fall – alongside the removal of petrol subsidies – Nigeria's fiscal deficit narrowed from 6.4 per cent of GDP in early 2023 to 4.4 per cent in early 2024 (Chatham House, 2025). While fiscal consolidation typically supports currency stability, the adjustment process involved significant short-term volatility. The government's partial reversal of subsidy removal in late 2023 reflected recognition of the macroeconomic instability created by the policy.

Sectorial Analysis

Manufacturing, Agriculture, and Services: Manufacturing Sector Challenges: The manufacturing sector faced significant challenges following the subsidy removal, primarily through increased input costs and transportation expenses. Manufacturing companies, particularly those with energy-intensive operations, experienced substantial increases in production costs that affected their competitiveness both domestically and internationally. Agricultural Sector Impacts: The agricultural sector experienced significant disruptions following the subsidy removal, with particular impacts on input costs and food security. Over 19 months later, Nigeria faces a hunger crisis aggravated by some of Mr. Tinubu's policies, especially the removal of fuel and currency subsidies, which has led to a significant rise in transportation and farm inputs costs (CAFS Africa, 2025). The increased cost of transportation severely affected agricultural value chains, from farm inputs delivery to harvested crops transportation to markets. Farmers faced higher costs for fertilizers, pesticides, and other inputs that required transportation from production centers to farming communities.

Impact on Government Revenue and Fiscal Policy

The removal of oil subsidies had significant implications for Nigeria's fiscal position, government revenue streams, and fiscal policy framework. The policy aimed to improve fiscal sustainability while redirecting resources toward productive investments and social programs.

Fiscal Deficit Reduction and Consolidation

The subsidy removal contributed to significant fiscal consolidation, with the government achieving notable improvements in deficit reduction. The fiscal position is also improving, with the Federal Government's fiscal deficit narrowing to 4.4% of GDP in the first half of 2024 from 6.2% in the first half of 2023, helping to mitigate debt-related risks (World Bank, 2024). This fiscal improvement represented a substantial achievement in macroeconomic management, demonstrating the significant fiscal burden that subsidies had placed on government finances. The reduction in fiscal deficits created space for increased public investments and reduced the government's borrowing requirements, potentially improving debt sustainability. However, the fiscal benefits were partially offset by the government's partial reversal of the subsidy removal policy. Nigeria's reintroduction of a gasoline subsidy months after it was scrapped is expected to guzzle almost half of its projected oil revenue this year, according to the International Monetary Fund (Bloomberg, 2024). This reversal highlighted the political and economic challenges of maintaining complete subsidy removal in the face of social and economic pressures. The fiscal cost of the partial subsidy reinstatement was substantial, with implications for government spending priorities. With pump prices and tariffs below cost-recovery, implicit subsidy costs could increase to 3 percent of GDP in 2024 from 1 percent of GDP in 2023 (IMF, 2024). This increase in implicit subsidy costs reduced the fiscal space created by the initial subsidy removal.

Revenue Generation and Collection Improvements

The policy changes contributed to improvements in government revenue collection, particularly in non-oil revenue streams. Non-oil revenue collection improved by 0.8 percent of GDP in 2023, helped by naira depreciation (IMF, 2024). This improvement reflected both the effects of currency depreciation on naira-denominated revenue and broader reforms in revenue collection systems. The removal of subsidies also improved revenue flows from the national oil company to the federal government. With the partial removal of the fuel subsidy in mid-2023, NNPCL began remitting revenue to the federal government (U.S. Department of State, 2025). This represented a significant improvement from previous years when subsidy payments had severely constrained the company's ability to remit revenues to government. However, overall oil and gas revenue performance remained challenging. The Nigerian Government earned $30.852Billion from the upstream oil industry in 2023, a 13.7% drop from $35.772Billion it recorded in 2022 (Africa Oil Gas Report, 2024). This decline in oil revenue highlighted the importance of diversifying revenue sources beyond the oil sector.

Fiscal Policy Reorientation and Investment Priorities

The government's fiscal policy approach shifted toward increased infrastructure investment and social spending following the subsidy removal. "The fuel subsidy is gone," said Nigeria President Bola Tinubu, in his inaugural address on 29 May 2023. "The subsidy can no longer justify its ever-increasing costs in the wake of drying resources.

Effects on Employment and Labor Market Dynamics

Direct Employment Effects in Transportation and Logistics: The transportation and logistics sectors experienced immediate employment impacts following the subsidy removal. Many commercial transport operators, particularly small-scale operators including motorcycle taxis (okada) and commercial tricycles (keke), faced reduced demand for their services as higher fuel costs made transportation more expensive for consumers. The increased operational costs forced many transportation operators to reduce their workforce or operating hours. The logistics and freight transportation sectors also experienced employment adjustments as companies sought to optimize operations in response to higher fuel costs. Manufacturing Employment Impacts Many manufacturing companies, particularly those in energy-intensive industries, were forced to reduce production levels and associated employment. The increased cost structure made some manufacturing operations unviable, leading to temporary or permanent shutdowns that affected employment levels.

Agricultural Employment and Rural Labor Markets

The agricultural sector's employment effects were complex, with both negative and positive impacts depending on specific subsectors and regional factors. The increased cost of agricultural inputs and transportation affected farm-level employment, with many farmers reducing hired labor to manage increased operational costs. However, the currency depreciation associated with the subsidy removal also created some positive effects for agricultural employment by improving the competitiveness of agricultural exports. The rural labor markets were particularly affected by the increased transportation costs, which affected labor mobility and access to off-farm employment opportunities. Services Sector Employment Dynamics. The retail and wholesale trade sectors experienced employment adjustments as businesses consolidated operations and reduced service coverage areas to manage increased transportation costs. The hospitality and tourism sectors faced employment challenges as reduced consumer spending power affected demand for services. The education and healthcare sectors, which rely heavily on transportation for service delivery, faced employment pressures as increased costs affected service delivery capacity. Many institutions struggled to maintain full employment levels while managing increased operational expenses.

Informal Sector and Vulnerable Employment

The informal sector, which employs a significant portion of Nigeria's workforce, was particularly vulnerable to the employment effects of subsidy removal. Many informal sector workers rely on affordable transportation to access their work locations and serve their customers. The increased transportation costs affected the viability of many informal sector activities, particularly those involving the movement of goods and services. Street vendors, small-scale traders, and service providers faced reduced demand as customers adjusted their spending patterns in response to higher overall price levels.

Foreign Investment Flows and International Economic Relations

The removal of Nigeria's fuel subsidy by President Bola Tinubu on May 29, 2023, marked a significant shift in the country's economic policy framework, with profound implications for foreign investment flows and international economic relations. The decision to eliminate the subsidy, which had cost the government over $10 billion annually in 2022, represented a critical step toward fiscal consolidation and macroeconomic stability (U.S. Department of State, 2024). The subsidy removal, coupled with the liberalization of the foreign exchange market and the floating of the naira, created a more market-oriented economic environment that aligned with international best practices. According to the World Bank (2024), Nigeria has been pursuing bold reforms to re-establish macroeconomic conditions for stability and growth, h the gasoline subsidy being completely eliminated and the exchange rate unified to be market-reflective. The International Monetary Fund (IMF) has recognized these structural reforms as essential for unleashing Nigeria's economic potential. However, the implementation of these reforms has faced significant challenges. The U.S. Department of State (2024) reported that to mitigate the impacts of rising inflation and currency depreciation, Tinubu quietly partially resumed subsidizing fuel in late 2023. This policy reversal created uncertainty in the investment climate and raised questions about the government's commitment to fiscal discipline among international investors.

Regional Economic Disparities and Development Patterns

The removal of fuel subsidies has had differential impacts across Nigeria's regions, exacerbating existing economic disparities while creating new patterns of development. The Federal Account Allocation Committee (FAAC) allocations to states increased significantly following the subsidy removal, with state allocations rising from N3.58 trillion in June 2023 to N4.5 trillion in May 2024 (Economic Confidential, 2025). This increase provided states with additional resources for development projects, but the distribution and utilization of these funds have varied considerably across regions.

The northern regions, which are predominantly dependent on agriculture and have limited industrial capacity, have experienced more severe impacts from the increased fuel costs. The removal of subsidies led to higher transportation costs, which disproportionately affected agricultural productivity and market access in these regions. The multiplier effects of increased fuel prices have been particularly pronounced in states with limited economic diversification and heavy reliance on road transportation for goods movement. In contrast, the southern regions, particularly those with significant oil production activities, have benefited more from the increased revenue flows to state governments. The Niger Delta states, which receive substantial derivation funds from oil revenues, have seen improved fiscal positions that have enabled increased infrastructure investments. However, the benefits have not been evenly distributed, with some communities still experiencing the negative effects of increased living costs.

The African Development Bank (2024) highlighted that Nigeria's poverty level remains high, with multidimensional poverty at 63% and income poverty at 40%. The subsidy removal has intensified these disparities, with rural communities and low-income households bearing a disproportionate burden of the increased fuel costs.

Comparative Analysis with Pre-Subsidy Removal Period

Prior to May 2023, Nigeria's fiscal position was characterized by unsustainable subsidy expenditures and multiple exchange rate regimes that created distortions in the economy. The fuel subsidy had become a major drain on government resources, consuming over $10 billion annually in 2022 and limiting the government's capacity for productive investments (U.S. Department of State, 2024). The pre-subsidy removal period was marked by significant fiscal imbalances, with the government struggling to maintain adequate funding for infrastructure development and social programs. The subsidy regime had created an artificial price environment that encouraged smuggling to neighboring countries and benefited higher-income groups more than the vulnerable populations it was intended to support. Following the subsidy removal, Nigeria's fiscal position improved dramatically. The World Bank (2025) reported that the fiscal deficit shrank from 5.4% of GDP in 2023 to 3.0% of GDP in 2024, representing a major improvement driven by a sharp increase in revenues of the entire Federation, which rose from N16.8 trillion in 2023 (7.2% of GDP) to an estimated N31.9 trillion in 2024 (11.5% of GDP). This improvement has provided the government with greater fiscal space for development spending and debt management. The macroeconomic environment has also shown significant improvements compared to the pre-subsidy period. The African Development Bank (2024) projected that economic growth would increase to 3.2% in 2024 and 3.4% in 2025, due to improved security and the benefits of the structural reforms. This represents a significant improvement from the sluggish growth rates experienced in the years preceding the subsidy removal.

However, the transition period has been marked by increased inflationary pressures and social costs. The immediate aftermath of the subsidy removal saw fuel prices triple, creating significant hardship for ordinary Nigerians (CNN, 2023). The government's response included the partial resumption of subsidies in late 2023, which, while providing some relief, also undermined the fiscal gains achieved through the initial removal. The exchange rate regime has also undergone significant changes.

Long-term Economic Sustainability Indicators

The long-term economic sustainability implications of Nigeria's subsidy removal policy reveal both promising developments and persistent challenges. The policy has created a foundation for improved fiscal sustainability while highlighting the need for comprehensive structural reforms to address underlying economic vulnerabilities. The improvement in Nigeria's fiscal position represents a critical step toward long-term sustainability. The savings from subsidy removal have been channeled into infrastructure development, with the government providing N23.96 trillion for capital expenditure in the 2025 budget, which is N10 trillion higher than the N13.64 trillion allocated for recurrent expenditure (Economic Confidential, 2025). This shift toward capital spending reflects a more sustainable approach to economic development that prioritizes long-term growth over short-term consumption subsidies. The debt sustainability indicators have shown improvement following the subsidy removal. The revenue-to-debt servicing ratio of 45% provides greater fiscal flexibility compared to the pre-subsidy period when debt servicing consumed a larger proportion of government revenues. This improvement enhances Nigeria's capacity to maintain its debt obligations while investing in productive sectors of the economy.

However, the partial resumption of subsidies in late 2023 has raised concerns about the government's commitment to fiscal discipline. The IMF (2024) warned that implicit subsidy costs could increase to 3% of GDP in 2024 from 1% of GDP in 2023, with pump prices and tariffs remaining below cost-recovery levels. This development threatens the long-term sustainability of the fiscal improvements achieved through the initial subsidy removal. The structural transformation of Nigeria's economy remains a critical challenge for long-term sustainability. Despite the fiscal improvements, the economy remains heavily dependent on oil revenues, making it vulnerable to external shocks and commodity price fluctuations. The United Nations Development Programme (2024) emphasized that Nigeria continues to face challenges in achieving equitable human progress and sustainable development, despite possessing unprecedented wealth and resources. The inflation dynamics present both opportunities and challenges for long-term sustainability. While the subsidy removal initially contributed to inflationary pressures, the improved fiscal position has created space for targeted interventions to support vulnerable populations. The government's ability to manage inflation while maintaining fiscal discipline will be crucial for sustaining the gains achieved through the subsidy removal. The Central Bank of Nigeria's commitment to increasing financial inclusion from 60% in 2020 to 95% by 2024 represents an important component of long-term sustainability (U.S. Department of State, 2024).

6. Conclusion

The removal of oil subsidies by President Tinubu represents a watershed moment in Nigeria's economic policy history, marking a decisive shift from consumption-based subsidies to investment-oriented fiscal policy. This study concludes that while the policy has achieved significant fiscal improvements and positioned Nigeria for enhanced macroeconomic stability, the implementation has been accompanied by substantial social costs and economic hardship that require sustained attention and mitigation. The research findings support the theoretical proposition that subsidy removal, while economically beneficial in the long term, creates short-term adjustment costs that can undermine the sustainability of the reforms if not properly managed. The Nigerian experience demonstrates that the success of subsidy removal depends not only on the political will to implement the policy but also on the government's capacity to design and implement effective compensatory measures that protect vulnerable populations while maintaining the integrity of the fiscal gains.

7. Recommendations

Based on the comprehensive analysis of President Tinubu's oil subsidy removal policy and its economic impacts, this study presents the following recommendations for policy makers, development partners, and stakeholders. (a) Policy Sustainability and Fiscal Management: The government should resist the temptation to reintroduce subsidies and instead focus on channeling the fiscal savings into productive investments. (b) The government should establish a comprehensive social protection system that includes targeted cash transfers, food security programs, and healthcare subsidies for vulnerable populations. © The government should leverage the improved fiscal position to invest in industrial infrastructure, technology transfer, and manufacturing capacity building. This includes developing industrial parks, providing access to affordable credit for manufacturers, and implementing policies that encourage value-added processing of raw materials. (d) Monetary Policy and Inflation Management: The Central Bank of Nigeria should maintain a tight monetary policy stance to complement the fiscal adjustments and bring inflation under control. (e) Governance and Institutional Strengthening: The government should establish transparent mechanisms for tracking and reporting on the utilization of subsidy savings. This includes regular public reporting on budget execution, independent auditing of government expenditures, and citizen participation in budget monitoring. (f) International

Cooperation and Investment Promotion: Nigeria should continue to engage constructively with the IMF, World Bank, and other international partners to access technical assistance, policy advice, and development finance. (g) Long-term Sustainability Measures: The government should invest in education, healthcare, and skills development to build the human capital necessary for sustained economic growth. (h) Monitoring and Evaluation: The government should establish robust monitoring and evaluation systems to track the progress of reforms and their impact on different segments of society. This includes developing key performance indicators, conducting regular impact assessments, and using data to inform policy adjustments.

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