

FUEL SUBSIDY REMOVAL AND ECONOMIC GROWTH IN NIGERIA

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Abstract

This paper is an empirical analysis of the effect of fuel subsidy removal on economic growth in Nigeria. The overall purpose of the research is to establish how the removal of fuel subsidy has affected economic growth in Nigeria. The researcher used the survey research design. The respondents were sampled across the residents of Akwa Ibom State and primary data was obtained. Statistical Package for Social Sciences (SPSS,24) was used to analyse the data. Based on the correlation analysis that was done, the removal of fuel subsidy has a strong impact on economic growth in Nigeria. It was also empirically established that the removal of fuel subsidy has a great impact on inflation in Nigeria. Lastly, in a bid to examine the effects of fuel subsidy removal on employment, it was established that fuel subsidy has a huge effect on employment in Nigeria. The study thus advised that the government needs to invest in other sectors other than oil and gas like agriculture, manufacturing and technology to ensure that the country does not rely on oil revenues, ensure that vulnerable groups are not directly affected by the removal of subsidies, consider implementing cash transfer programs, food subsidies or direct support to the most affected citizens, and invest in education and vocational training programs to make the workforce more employable, especially in sectors less affected by the removal of fuel subsidies.

Keywords: Fuel Subsidy, Population, Economic Growth, Correlation.

I. Introduction

Nigeria is a country with large oil deposits and is the sixth largest oil exporter in the Organization of the Petroleum Exporting Countries (OPEC). The oil discovery in Nigeria has earned the country billions of dollars in the past five decades. Unfortunately, the expected gains in the form of improved social wellbeing have not been realized as it is the case in most emerging countries. This gap can be largely explained by a combination of factors, such as inefficiency, corruption, the use of the natural monopolistic power, management failures, illegal trade practices, bureaucracy, and over-subsidization. These problems have therefore led to a drastic decline in supply of refined petroleum products in the country (Ibanga, 2011; Balouga, 2012).

Over the past five decades, the oil industry has had a significant influence on the economic policies, development path and related activities in Nigeria. The reliance of the Nigerian economy on the oil business is quite high; the oil industry is one of the pillars of the economic system of the country (Adelabu, 2012). The literature available gives empirical evidence that Nigeria is the largest oil producer in Africa and the sixth-largest in the world. The economic system of the country is largely dependent on its oil and gas resources that contribute 99 percent of government revenue and 38.8 percent of GDP (National Budget, 2010). In spite of these positive signs, the successive Nigerian governments have not been able to utilize the potential of oil money to alleviate poverty and to deliver the much needed social and economic services to the people (Ering & Akpan, 2012). The military dictatorship introduced a subsidy on the price of premium motor spirit in order to improve poverty alleviation and economic development. This has led to a lot of debate in the recent past on the merits and demerits of subsidies i.e. whether their abolishment or encouragement would lead to economic development.

In the past, the gasoline subsidies in Nigeria were federal government programs that were aimed at enhancing the economic conditions of the Nigerian people. Gasoline subsidy implies that the government partially funds the entire cost of fuel production to make the product affordable and available to the masses. This plan was successfully carried out between 1973 and 1983, and the aim of this plan was to reduce the economic burden caused by the gasoline prices, especially on the poorer segments of the population. The effectiveness of this subsidy policy however started to decline over time leading to a sharp rise in fuel prices. General In 1986, Ibrahim Babangida decided to increase

the cost of fuel by approximately 97.5 percent, which led to a change of policy. The situation was worsened by subsequent regimes such as that of Chief Olusegun Obasanjo in 2000 who further increased the prices of fuel thus defeating the initial purpose of the subsidy program. The cost of gasoline subsidies has been too high and the federal government is said to have spent more than 1.4 trillion naira in the past five years on gasoline subsidies. Moreover, the government added that the problem was worsened by the subsidization of the imported kerosene by the Nigerian National Petroleum Corporation (NNPC). The spending, along with the unintended effects of fuel subsidy policies, like the smuggling of petroleum products to other countries, undermined the government capacity to solve the most important infrastructure problems, like roads, power, agriculture, and refinery maintenance (Omoniji, 2012).

With the minimal gains enjoyed by the ordinary Nigerian citizen and the view of the subsidy regime as corrupt, many economists argued that subsidies were very inefficient and subject to misuse of government funds, benefiting the rich fuel importers. Therefore, during his inaugural speech on Monday, May 29, 2023, President Bola Tinubu stated that Nigeria will do away with gasoline subsidies due to financial reasons. The move led to a sharp rise in the prices of gasoline and a panic buying of petrol. The federal government declared that it was ending the gasoline subsidies because some bus operators could not refill their cars, leaving several people stranded. This move was taken by the government since the refineries were not operational and therefore there was need to continue importing refined petroleum. Gasoline importation puts pressure on the local currency, and the subsidy mainly benefits the cabals, which enables arbitrage and smuggling of petrol to other countries (Vanguard, 2023). The key areas of the economy are affected because of the reduced revenues that are being eaten up by the high subsidies. The reduced earnings of crude oil exports in November 2022 that resulted in a trade imbalance of 20 million dollars shows that the petrol subsidy should be eliminated, the production capacity should be increased, and fuel imports should be eliminated to achieve a positive balance of trade.

The removal of the gasoline subsidy by the Nigerian government has been a highly controversial topic and this is why it has been one of the most discussed issues since the introduction of democracy in Nigeria. It revealed the widespread distrust of the Nigerians, especially the young generation, in the government because of the failure to fulfill their promises and poor policies. By May 30, 2023, Nigerians experienced long queues at fuel stations, with fuel selling at up to N700 per liter. The process of ending gasoline subsidies, which the government of President Goodluck Ebele Jonathan began on May 29, 2011, was officially launched on May 29, 2023.

The removal of the fuel subsidy by the federal government elicited a lot of opposition by the Nigerian Labour Congress (NLC) because of its socioeconomic implication on the economy of the country. The plan led to increase in the cost of goods and services, a drastic increase in the cost of transportation and an instant increase in the fares paid by commercial motorbike operators following the announcement by the government to eliminate the subsidy. Many artisans like welders and tailors who could not afford generators became jobless. Many Nigerian adolescents have resorted to driving commercial motorbikes, tricycles or street hawking as a source of income. The NLC and government employees went on strike and this meant that the government was losing millions of money on a daily basis, which is equivalent to billions of Naira. The elimination of subsidies increased the level of poverty in Nigeria because the cost of living increased but there was no increase in revenues. Moreover, the streets were filled with violence, which destroyed the peace and harmony of the country (Premium Times, 2023).

The efforts to do away with gasoline subsidies are not always successful, with Kauffmann (2010) observing that some have caused minimal strain on the society, and others have been a complete failure. This depends on the economic structure, developmental level, political structure and economic conditions of the particular country. Effective governments tend to be systematic or gradual, conduct careful research before implementation, and follow strict policy-making procedures. Good communication and a high degree of trust between the residents and the government are important success factors in such initiatives. We consider the proposal of Nigeria to do away with subsidies.

The stakeholders, which included unions and the general population, raised issues on the removal of fuel subsidies, claiming that the policy was unconstitutional, failed to benefit the poor majority, lacked popular support, and were not the only way through which the government could save money to develop other sectors of the economy. This paper seeks to analyze how the withdrawal of gasoline subsidy affected economic growth in Nigeria. The removal of gasoline subsidies in Nigeria is an issue that has been debated over many decades. Nigerian government has in the past subsidized petroleum products such as gasoline, diesel and kerosene to protect consumers against the volatility of

the international oil market. The continuation of this strategy has resulted in serious economic, social and political consequences. One of the major shifts in the economic environment is the controversial topic of gasoline subsidy removal that has faced a lot of resistance among the Nigerians. The government continues to push its acceptance even though it is highly criticized by the masses due to the economic consequences of failing to do away with the subsidies. Pricing of petroleum products by the government has been a major issue especially with the underutilization of the available refineries. Nigeria has relied on importation of petroleum products to meet its domestic demand and this has discouraged potential investors to set up refineries because of the perceived poor price conditions. This has resulted in low profit margins of product marketers unless the government offers high subsidies, which is a heavy burden on its budget (Balouga, 2012).

The gasoline crisis that has turned out to be a frequent problem in Nigeria, a country that is richly blessed with crude oil and a major exporter of oil in the world, is a bitter irony. It is unfortunate to mention that Nigeria is the only OPEC member or non-oil producing country that is in the dilemma (Badmus, 2009). Subsidies are evident in an economic environment where the government helps customers to pay less than the market price of a given item. This implies that the customers will be charged less than the market price per liter of petroleum products because of the fuel subsidy. The fuel subsidy can be briefly described as the difference between the real market price of petroleum products per liter and the price paid by the customer. This difference is now being absorbed by the government and is blamed on eight import related expenses that have been cited as the cause of high prices of petroleum products in modern day Nigeria. Before the administration of Tinubu, the gasoline subsidy was a government program aimed at reducing the economic plight of the Nigerian people. The aim of the gasoline subsidy was to increase the financial ability of the people and to cover the financial losses as it is the national duty of the government to maintain the welfare of the people. In a simplified explanation, a subsidy of N85 per litre of fuel bought at filling stations occurs when a product such as fuel is supposed to be sold at N141 per litre but is sold at N97 per litre due to a number of factors and the government absorbs the N44 difference (Onyishi, Emeh, and Eme, 2012). The oil and gas industry in Nigeria has a downstream sector that is controlled by cartels that control the prices through the false supply.

Many Nigerians opposed the move by the federal government to remove gasoline subsidies. President Bola Ahmed Tinubu has received a lot of opposition to the removal of the gasoline subsidy on May 29, 2023. The government workers and the Nigerian Labour Congress staged a walkout that cost the country a lot of money, about 100 billion naira. Vanguard, 2023. The federal government worsened the inflation by removing gasoline subsidies, which led to an increase in the prices of petrol and other commodities in the market. Moreover, it worsened poverty because the prices of goods and services rose and the salaries of people did not rise. The policy provoked violent protests that destabilized peace and stability in the country. These challenges prompted the researcher to carry out a comprehensive research on the effects of gasoline subsidy cut on the Nigerian economy. The researcher is encouraged to examine how the removal of the gasoline subsidy will affect the Nigerian economy. The following question formed the basis for this study:

How does the removal of fuel subsidies affect the inflation rate in Nigeria?

How does the removal of fuel subsidies affect the inflation rate in Nigeria?

How does the removal of fuel subsidies impact employment levels in various sectors of the economy?

This paper will evaluate how the withdrawal of gasoline subsidy will affect the economic growth of Nigeria. This paper will particularly examine how the removal of fuel subsidy affects inflation, cost of living and the rate of employment. The following parts of the paper are structured as follows: Section 2 outlines the theoretical framework and literature review; Section 3 outlines the empirical framework, econometric modeling, and data sources of the study; Section 4 discusses the empirical analyses, results, and discussions; and Section 5 concludes the paper with policy implications and recommendations.

II. Theoretical Framework and Review of Related Literature

The theories reviewed in this study are; the big push theory and the debt crowding-out hypothesis.

The Neoclassical Growth Theory

Neoclassical growth theory is one of the most popular economic models that are devoted to explaining the factors of long-term economic growth. The main idea of this theory is that market forces and efficiency are very important in promoting economic development (Mankiw, Romer, and Weil, 1992). Subsidies are governmental interventions in the marketplace that offer financial support to some industries or activities and have a great impact on economic development. This paper

discusses the connection between the removal of subsidies and the principles of neoclassical growth theory and how the former can be used as a tool to facilitate economic growth. The neoclassical growth theory suggests that economic growth is driven by three main factors, which include capital accumulation, technical progress, and human capital development (Barro & Sala-i-Martin, 1995). Poorly implemented subsidies can distort market incentives and erode important growth determinants.

The importance of savings and investment in increasing the capital stock of an economy is highlighted by capital accumulation as highlighted by the neoclassical growth theory. Nevertheless, subsidies can cause inefficient allocation of capital in other sectors that are more productive when they encourage over-investment in some sectors (Solow, 1956). Elimination of such subsidies will shift resources to more productive activities and eventually increase the overall capital accumulation.

Technological advancement is driven by innovation, which is a key element of the neoclassical growth theory. The subsidies given to the existing businesses may unintentionally discourage competition and technical progress (Romer, 1990). Elimination of these subsidies will encourage competition, which will encourage enterprises to innovate and hence drive technological advancement.

Training and education are vital aspects of human capital development and play a central role in the growth of productivity, which is a major aspect of economic growth. Distorting subsidies may hinder the growth of human capital and discourage people to get an education or training (Lucas, 1988). The removal of such subsidies can be a great incentive, and people will be willing to invest in their skills and knowledge, which will lead to economic growth.

According to the neoclassical growth theory, the elimination of subsidies can boost economic growth through numerous ways:

Removal of subsidies can increase economic efficiency, as the market forces would be free to allocate resources according to the supply and demand, which would lead to optimal allocation of resources (Barro & Sala-i-Martin, 1995).

Secondly, lack of subsidies can create competitiveness among businesses, which will result in efficiency and innovation, and eventually, technological advancement (Romer, 1990).

The removal of subsidies helps in making the budget sustainable since it will not strain the government finances. Fiscal stability is a very important basis of long-term economic growth, which is necessary to ensure low interest rates and avoid crowding out of the private investment (Mankiw, Romer, & Weil, 1992).

The elimination of subsidies fits perfectly into the neoclassical growth theory that focuses on market forces, efficiency, capital accumulation, technical progress, and human capital.

Governments can create an atmosphere that supports long-term economic growth by removing subsidies that distort resource allocation, reduce competition, or discourage investment in productive activities.

III. Review of Related Literature

The removal of fuel subsidies and its effects on the economic growth of various countries have been studied numerous times. However, there are papers that have been chosen as critical to this study.

Atoyebi, Kadiri, Adekuyo, Ogundeji and Ademola (2012) examined how the reduction of fuel subsidy affected the production of the agriculture sector. The research employed Spearman rank correlation and found a positive relationship between the removal of fuel subsidies and the price of agricultural output. Removal of the gasoline subsidy will thus boost the budgetary allocation to the agricultural sector, thereby boosting agricultural production. The professionals advised the government to cushion the effect by transferring savings that would be made due to the removal of the gasoline subsidy to the agricultural sector and speeding up the refurbishment of the refineries in the country.

Opeyemi et al. (2015) examined the long-term impacts of fuel subsidy reform on the quality of the environment in Nigeria between 1970 and 2012 through the Johansen and Granger Two-step co-integration methods. The research involved a three-case scenario that involved (i) a subsidy payment case, (ii) an effective subsidy case, and (iii) a no subsidy payment case. The estimate outcomes indicated that the initial and last case scenarios do not have significant effects on the environmental quality.

Adagunodo (2013) discussed the removal of gasoline subsidies in Nigeria as a political issue and an economic necessity. His discussion showed that the subsidy funds would bring significant developmental benefits to the nation when properly implemented. This would enable Nigeria to

develop refinery capacity, therefore, generating more potential revenue in the oil sector and generating jobs.

Akpo, Chukwurah, Okpe, and Ugbadu (2023) explored the consequences of the removal of the gasoline subsidy and the effectiveness of the role of university teachers in Cross River State, Nigeria. The research had two research objectives and two research questions. Two hypotheses of the study were formulated and tested at the level of significance of 0.05. The study sample consisted of forty-seven (47) business education instructors in federal and state institutions in Cross River State, Nigeria. The study involved forty-seven (47) professors. The statistics show that university educators are experiencing economic hardships as a result of the elimination of gasoline subsidies. Moreover, the analysis showed that university teachers did not get any financial incentives during and after the gasoline subsidy withdrawal. The elimination of gasoline subsidies has led to a high standard of life in the society. The market has experienced a skyrocketing transportation and food inventories yet the earnings of university instructors have not been able to match the current situation. It was suggested that the federal government ought to offer financial incentives and in turn increase the remuneration of university teachers to match the prevailing market realities.

Imam (2023) investigated the impact of the removal of the fuel subsidy on consumer purchasing power in some of the local government areas of Borno State. To attain this goal, a research problem statement and study objective was developed to determine and examine the conflicting views on the removal of subsidies on petroleum products, issues and challenges of implementing this policy. The study used survey research design, where the whole population of Maiduguri Metropolitan Council and Jere Local Government Area in Borno State was targeted. The stratified and simple random sampling methods were used to select a sample size of three hundred. The research used primary data collection method by use of a structured questionnaire that was used to collect data on a sample size of 250 respondents. The 250 questionnaires were properly filled and returned and therefore only these were analyzed using the simple percentage statistical method and the results were presented in tabular form. The research found that the elimination of subsidies on petroleum products influences the purchasing power of consumers, as evaluated in relation to the proposed hypothesis. Chi-square statistical technique was applied and it was found that the removal of the petroleum product subsidy has a significant impact on the consumer buying power at a level of significance of 1 percent. It was advised that the government should increase awareness on deregulation of the downstream petroleum industry and offer structures that would allow the citizens to enjoy the strategy.

Adewunmi, Remy and Iyewumi (2014) evaluated the effects of the removal of the gasoline subsidy on the socio-economic development of Nigeria. The study employed the error correction model to examine the short run and long run impacts of removing the gasoline subsidy on socio-economic development in Nigeria, through the use of data between 1980 and 2012 through a price pass-through model. To determine the stability of the data, the Augmented Dickey-Fuller and Phillips-Perron tests were employed to test the variability of the trend (unit root). The research findings were that the removal of gasoline subsidies did not affect the social welfare of Nigerians in the short run. The long-term effects of this plan show that deregulation of the downstream sector will eventually result in economic prosperity of the country in the future. The research revealed that the government must make a concerted and sincere attempt to make sure that subsidy money are utilized effectively and efficiently in key developmental projects to achieve the fruits of subsidy withdrawal.

Fuel Subsidy Removal and the Nigerian Economy

The history of gasoline subsidy cut in Nigeria is characterized by a number of critical policy changes, each of which had a significant impact on the socio-political situation in the country. This plan was first initiated in 1978 when the military government led by General Olusegun Obasanjo introduced a massive increase in the price of gasoline by 83 percent, increasing the price to 15.37 kobo. The main justification of this action was to boost government revenue particularly with the looming democratic elections in 1979 and to meet the urgent socioeconomic demands of the Nigerian people. Later on, in January 1982, the civilian government of Alhaji Shehu Shagari increased the price of gasoline to 20 kobo, which was an increment of 30 percent of 15.37 kobo. Unfortunately, the revenue earned through this price increase was not spent on the much needed social amenities; instead, it was spent on buying real estates in European cities by the government members. The gross incompetence and corruption that was the order of the day in the National Party of Nigeria (NPN) government under Shagari eventually led to its ouster.

The military dictatorship that succeeded General Babangida continued the trend of gasoline price hikes, the most notable being on March 31, 1986 when petrol prices shot up to 39.50 kobo, an increase of 98 percent. Further increases in April 1988 (to 42 kobo) and January 1989 (to 60 kobo on

private vehicles) further fuelled the mood of the people especially as this was being done at a time when the country was implementing a domestic Structural Adjustment Programme (SAP) rather than foreign borrowing. This caused massive demonstrations and civil unrest as a result of the economic hardships that were being subjected to Nigerians. On March 6, 1991, the Babangida regime further inflamed the mood of the people by increasing the price of gasoline by 17 percent to 70 kobo. The other major increase occurred on November 8, 1993 when the price of gasoline increased to N5.00 which was a huge increment of 614 percent. This provoked widespread protests in Nigeria, and it was cut to N3.25 (a 35 percent reduction) on November 22, 1993. In October 2, 1994, the price of gasoline shot up to N15.00 (an increase of 362 percent) and was later brought down to N11.00 (a decrease of 27 percent) two days later under the regime of General Abacha, largely as a result of intense demonstrations by the people of Nigeria. On December 20, 1998, the fuel prices were raised to N25, which was a 127 percent increment, but later on January 6, 1999, under the short transitional military regime of General Abdulsalam Abubakar, the fuel prices were lowered to N20, a 20 percent reduction. This move to increase fuel prices elicited continuous demonstrations by the Nigerian populace, organized labor and Civil Society Organizations (CSOs). It is interesting to note that the Buhari/Idiagbon and Umaru Shehu Yar Adua military regimes did not increase the price of fuel, probably because of their short stays in power, the health conditions of the two leaders, and their focus on fighting corruption and indiscipline in the Nigerian society.

The second tenure of General Olusegun Obasanjo as a civilian president was marked by a number of gasoline price increases, which started on June 1, 2000, when the price of petrol increased to N30.00 per liter. A week later, the price was immediately lowered to N25, a 17 percent cut, following widespread protests by organized labor, civil society organizations and the populace at large. This was later cut down to N22.00, which is a 12 percent reduction, on June 13, 2000. On January 1, 2002, the Obasanjo administration raised the price of gasoline by 18 percent to N26.00 and on June 23, 2003, the price was raised by 54 percent to N40.00. In June 2007, the same government increased the price of petrol to N70 per litre (75 percent increase) but this was later reduced to N65 (7 percent reduction) by the administration of Yaradua when he assumed power in May 2007. The price has been stable until the ill-fated move by the government of President Goodluck Jonathan to remove gasoline subsidies, which has seen the price rise to between 138 naira and 250 naira per liter, a ridiculous increase of 112.31 percent to 284.62 percent. Surprisingly, the President of the Nigeria Labour Congress, Comrade Adams Oshiomhole, who was once vocal in his opposition to the removal of fuel subsidies under the Olusegun Obasanjo regime and when he was the governor of Edo State, has joined other governors and the federal government in calling on the total removal of fuel subsidies.

It is interesting to note that as consultations and debates on the removal of gasoline subsidies were going on countrywide, the Petroleum Product Pricing Regulatory Agency (PPPRA) declared the total removal of fuel subsidies on January 1, 2012. This move, which was carried out by the Goodluck Jonathan government, led to widespread strikes and demonstrations organized by the Nigerian Labour Congress (NLC), Trade Union Congress of Nigeria, PENGASAN, Civil Society Organizations, Academic Staff Union of Universities (ASUU) and the general Nigerian populace. This led the government to negotiate with organized labor and the result was a shift of total removal to partial removal and a decrease in the pump price to N97 per liter (between 138 naira and 250 naira). The price dropped to N87 during the administration of Jonathan as the elections in February 2015 approached.

On May 12, 2016, the Federal Government of Nigeria declared that gasoline subsidies would be immediately removed, setting a price of N145 per liter, a large rise over the former price of N86.50 per liter. An 80 percent increase was announced by the Minister of State for Petroleum, Ibe Kachikwu. By May 30, 2023, long queues had been witnessed at fuel stations in Nigeria, where petrol was sold at N700 per liter. Formal removal of the gasoline subsidy started on May 29, 2023, in the inauguration speech of President Bola Ahmed Tinubu, following a long campaigning and lobbying process initiated by the government of President Goodluck Ebele Jonathan on May 29, 2011. This policy change has had far reaching socio-economic consequences and a general uneasiness in the Nigerian society.

Benefits of Fuel Subsidy Removal in Nigeria

The advantages of the gasoline subsidy program are undoubtedly equal to the advantages of its abolition. The policy is advantageous to the government and the citizens. The problem with the policy in Nigeria is its implementation and management. The regime started in 1973 when the military government of General Yakubu Gowon increased the cost of a liter of petrol to 8.5 kobo (K) as compared to 6 kobo (K). Gen. Ibrahim Badamasi Babangida increased the price of gasoline in 1986 to 39.5 kobo upwards of 20 kobo. In 1988, the government increased it to 42 kobo and in 1989, it was

further increased to 60 kobo but this was only applicable to individual automobiles and commercial vehicles still paid 42 kobo. It was changed to a standardized price of 60 kobo on 19 December 1989. On March 6, 1991, the price of petrol per liter was raised to 70 kobo and this was maintained until he vacated his office in August 1993. When the Interim National Government (ING) headed by Chief Ernest Shonekan took over the reign of Gen. Babangida on 8 November 1993, the price was raised to N5.00. This led to mass protests which culminated in the overthrow of the interim government by Gen. Sani Abacha through a bloodless military coup d'etat. When he was inaugurated as the President and Commander-in-Chief of the Armed Forces of the Federal Republic of Nigeria, he raised the price of gasoline to N3.25K on 22 November 1993 (Ademola, 2012).

On 2 October 1994, General Abacha raised the price of gasoline to N15.00 per liter upwards of N3.25K. This was later cut down to N11.00K on 4 October 1994 following widespread protests by residents. The price of gasoline did not change until the demise of Gen. Abacha on 8 June 1998. On 20 December 1998, the caretaker government of Gen. Abdulsalami Abubakar increased the price to N25.00, up from N11.00. Days of continuous protests forced the government to cut the increment to N20. Chief Olusegun Matthew Obasanjo assumed the position of the civilian President with the hope that gasoline subsidy would be the foundation of his economic policy. On 1 June 2000, his government increased the price of petrol to N30.00, but protests and mass opposition compelled it to lower the price to N25.00 on 8 June 2000, and to N22.00 on 13 June 2000. On 1 January 2002, the government will raise the price to N26.00 and then to N40.00 on 23 June 2003. It had increased to N70.00 by the time he left government in May 2002. His successor, Alhaji Umaru Musa Yar Adua, later cut it down to N65.00K following a general outcry against the new pricing regime. Although the YarAdua government tried to raise the prices of petroleum products, it failed because of the mass disapproval of the population (Ademola, 2012; Okocha, 2021).

The money that is supposed to be used in the development of other sectors of the economy like education, employment and development of infrastructure is used in fuel subsidies which prevents the best development of these sectors. This has over the years overshadowed other development spending in the country. The total amount of money spent on education in the country in 2012 was approximately 2.2 billion dollars, and the spending on health care was only slightly larger. At the same time, the death rate is unacceptable 90.4 per 1000 live births. It was estimated that in 2004, approximately 15 percent of the county roads were paved. Some of the problems can be solved through the use of billions of the fuel subsidy. The National Economic Council (NEC) of Nigeria, which is the highest economic policymaking body of the government, agrees with the view of the Nigerian Senate, but its report shows that the treasury of the country is losing one trillion naira annually because of the subsidy on petroleum products. NEC proposed that it would be more beneficial to use the huge amount of money that is being spent on subsidies to repair potholes, equip hospitals, renovate and build health centers and schools, or to provide potable drinking water and other basic facilities and infrastructure (Daily Sun Newspaper, 2012).

President Goodluck Jonathan, who replaced President Yar Adua after his death, tried to eliminate the gasoline subsidy program of the government. The administration argued that its removal will save about 1.3 trillion to 1.5 trillion Naira per year that will be spent on infrastructure development. On 1 January 2012, the government increased the price of gasoline (petrol) pump price to N141.00, up by N65.00. As usual, Nigerians protested the increase forcing the government to lower it to N97.00. The argument behind the removal of the gasoline subsidy has remained the same over the years regardless of the change of government. The increasing cost of government budgetary allocation to gasoline subsidies is the main reason why there have been frequent efforts to reverse subsidy policy in Nigeria. The large amount of the Nigerian National Petroleum Corporation (NNPC) that holds money that is supposed to be used in subsidizing gasoline, which is prone to embezzlement and wastage, would be improved in case the government withdraws the program. Many cases of petroleum subsidies in the judiciary revealed a lot of corruption by government officials and most stakeholders in the oil industry. The practice will certainly be eliminated following the recent withdrawal of the policy by President Tinubu (Ayanruoh, 2023).

In Nigeria, the Petroleum Subsidy Fund (PSF) had an initial budget of N150 billion in the year 2008. It surpassed N1.5 trillion in 2007 and since then, the years of subsidizing the prices of petroleum products have resulted in an unacceptably high budgetary burden on the federal government (Nkwagu 2012:42). It has been found to be costly economically and has created a number of unforeseen consequences and actions such as smuggling of petroleum products to other countries and creation of rents that are probably enjoyed by the high income earners. The policy, even at its time of operation, favored the consumption of high-income groups mostly. Extensive studies showed that the poor and near-poor population group consumes a very small percentage of this product. The

benefit of the Nigerian gasoline subsidy is not largely enjoyed by the poor as many people think, but by the rich and powerful elites.

The federal government subsidizes the price of gasoline in the country to ensure that the prices are low; therefore, the more it is used, the more the benefits of the subsidy program. The poor in Nigeria largely depend on the government transport system and this has led to significantly low per capita fuel consumption as opposed to the rich who travel using their own cars. Nigerians wanted the government to curb the oil cabal and the government found the pullout policy as the best and convenient way to solve the problem, and the Tinubu administration rescinded the policy. Although the current state of affairs is harmful to Nigerians, it will eventually be beneficial because it would give enough money to develop other sectors of the national economy. It will also discourage corruption that has favored some people disproportionately to the point that they do not own any industries. Moreover, it will create a balance of resources and will be beneficial to most people.

The advantages of the removal policy in Nigeria are numerous; however, President Tinubu stated that it has been cancelled because of the lack of funding in the 2023 federal budget. However, its positive long-term effects cannot be overestimated. Hussaini (2023) aptly explained that the removal of the high gasoline subsidy would definitely free up resources to other government services such as healthcare and infrastructure development projects and also liberalize the fuel industry, which would ultimately be beneficial to the economy. The removal policy has a number of benefits: it will involve the private sector in the importation of petroleum products, thus liberalizing the market and empowering many Nigerians; the government will be able to concentrate on other sectors of the economy; petrol will always be available to all Nigerians because of an oversupply in the market, and diversion by marketers will be eliminated; and it will reduce the greed and sabotage by a few in the oil sector (Hussaini, 2023).

In the first quarter of the 2023 budget, the federal government estimated N3.6 trillion on gasoline subsidies. This is a huge difference with the N443 billion that was used in paying subsidy in the first half of 2022. This implies that the government can possibly afford to use its huge budget on gasoline subsidies on other important sectors. Investors will certainly be attracted to the country as other industries will be funded. Gasoline subsidization worsens the diversion and smuggling of fuel by rogue government officials. The removal would thus eliminate economic necessity, since the money of the subsidies can be spent on giving significant developmental benefits (Oluwabukola, 2023). Civic Keypoint (2023) claimed that the removal of fuel subsidies by the government will create competition in the industry, as opposed to the monopoly of a few marketers, and will also end the queues at the petrol stations, thus avoiding the constant sufferings of petrol shortages. The problem with this method in Nigeria is its implementation. It is controlled by corrupt government officials and citizens. This is the obvious issue with the policy in the country, not the policy itself.

Challenges of Fuel Subsidy Removal in Nigeria

Nigeria can take lessons with other nations such as the United States, China, Pakistan, and Saudi Arabia because there is nothing wrong with the policy framework of Nigeria. The only issue is that it is corrupt in its implementation and management. Ray (2023) argues that the problem with the subsidy system in Nigeria is the corruption in the management and implementation of the system, which is worsened by the fact that the government pays money on the items that were never delivered. Analysts have questioned this phenomenon in Nigeria; however, there is no evidence among the masses to support this claim due to the high level of secrecy that the cabals and greedy bourgeoisie who benefit in the looting maintain. This is the question that all the fearful Nigerians have asked, but the government and NNPC have failed to give an acceptable answer. How do 200 million people consume approximately 65 million liters of alcohol daily, when other nations such as Pakistan, which has a similar population, have a consumption rate that is only a third of that of Nigeria (Ray, 2023)?

Ray (2023) referred to the World Population Review Ranking of Fuel Subsidies by Countries (2023), according to which the total fossil fuel subsidies in G20 countries are estimated to be about 290 billion. Republic of China offers approximately 30 billion dollars of fossil fuel subsidies to businesses, Saudi Arabia offers about 28.7 billion, Russia offers about 24 billion, and the United States offers about 20 billion per year. This shows that the policy is good, as the practice is common in virtually every oil producing and consuming nation in the world. The major issue in Nigeria is corruption (Ikenga, 2018). The oil industry is regarded as the epicenter of corruption because political leaders and government officials have promoted corrupt activities, and this has militarized the Niger Delta region (Ikenga and Agah, 2020; Agah and Ikenga, 2007). The daily fuel consumption was estimated to be 48.903 million liters in August 2021. The rate of gasoline consumption between January and August of the same year shows that the average consumption per day is 55.39 million liters. In January 2022, the former Minister of Finance, Mrs. Zainab Ahmed, indicated that the daily

fuel consumption rate in the country was 65.7 million litres. This shows that the rate of gasoline consumption rose by 10.31 million liters per day between January and August 2021 and between January 2021 and January 2022. NNPC therefore requested a N3 trillion subsidy budget in the 2022 fiscal year based on a daily consumption rate of 65.7 million litres and an oil price of 80 dollars per barrel. Nowadays, the debate regarding the alleged sum spent on gasoline subsidies and the revenues declared by the government and its organization, NNPC, is even more heated (Ray, 2023). The withdrawal plan appears to have had a great influence on the prices of commodities in various markets. The motorcyclists in the industry quickly changed their prices following the announcement of the withdrawal. Goods and services have become more expensive and there is no guarantee that landlords would not raise the rents, as they also have families to feed. Employers such as the Power Holding Company of Nigeria (PHCN), schools, hospitals and other organizations might want to increase the compensation of their employees so that they can be able to meet the rising cost of living. Nigerians can also face tuition fee hikes, electricity tariffs, and medical costs among others. This implies that more children will drop out of school, as their parents will find it very difficult to meet the school fees. The current elimination policy will result in more sick people dying in hospitals or at home due to lack of finances in terms of medical costs, as food comes first, therefore causing a lot of suffering to the citizens. The problem is worsened by the fact that employee earnings and salaries have stagnated. The Nigerians would end their small-scale businesses, which are supposed to be the backbone of the economy, and await the long-term effects of the withdrawal policy of the government.

According to Ugo (2011), commercial firms in Nigeria have not been able to flourish in the past because of a poor economic environment, which is at times worsened by the rise in the prices of petroleum products. Craftsmen and technicians who rely on petrol (PMS) motorspirit to run their generators will have to transfer the expenses to their clients to prevent the closure of their companies. The administration asserts that the removal strategy would solve the unemployment problem which is likely to increase. The ranks of unemployed people in the country will continue to increase, as not all people will be able to afford going beyond their borders (Ugo, 2011). The anti-subsidy rallies that are obviously provoked by the removal strategy will only weaken the already weak Nigerian economy. The government has been cautioned by employers of labor on the consequences of the removal policy but it has been confirmed by the current administration.

IV. Research Methodology

This provides the methods and techniques that will be used in verifying the objectives, hypotheses and research questions of the study. It identifies the research design, data sources, model specification, variables in the model and method of analysis.

Research Design

The research methodology used in this study is ex-post facto research methodology to evaluate the impact of gasoline subsidy reduction on the economic development of Nigeria in a systematic manner. Ex post facto design aims at determining the natural causal variables of some results without controlling the independent variable (Onwumere, 2009). Ex post facto refers to a situation that happens after an event. This means that the event under consideration has occurred. As a result, the data that will be utilized is already collected.

Study Population

The study population was all the traders (transporters), business men and women, artisans, salary earners, students and any other person in the state of Akwa Ibom and Uyo state metropolis. But since it is hard to conduct research on all the subjects of a population, samples were thus chosen. The total population was selected through stratified random sampling technique and 200 respondents were sampled out of the total population. The sample was selected in a manner that it would cross-section the whole occupations in the economy. But a bigger percentage was directed to the salary earners.

Sample Selection/ Sample Technique

Out of the 200 residents of the population, traders (transporters), business men and women, artisans, salary earners, students, and other persons in Akwa Ibom, Uyo state metropolis. The sample size was

$$n = \frac{N}{1 + N(e)^2}$$

calculated, with the help of the formula developed by Yamane (1967) as follows:

Where:

n = the sample size

N = the population

e = error term (5% based on 95% confidence interval)

1= Theoretical constant

Thus,

$$\begin{aligned}
 n &= \frac{200}{1 + 200(0.05)^2} \\
 &= 200 / (1 + 200(0.0025)) \\
 &= 200 / (1 + 0.5) \\
 &= 200 / 1.5 \\
 &= 133.333
 \end{aligned}$$

Thus, the sample size of this study was 133 inhabitants of Uyo metropolis. Besides, stratified random sampling was used in the study. The reason behind this selection of sampling method as applied in this study is to make sure that a sample is representative of the features of the larger population that it is taken. This is done by stratifying the population into subgroups or strata on the basis of some characteristics and then sample is selected randomly within each stratum.

Method of Analysis

A data analysis centre is present in each study (Nwadinigwe, 2012). To provide information, data analysis involves the systematic manipulation of data using statistical tools. The purpose of the statistical analysis of the data contained in this research study was to aid the researcher in the interpretation of the data and the derivation of dependable findings that would facilitate sound decision-making (Olannye, 2016). The hypotheses delineated in this research were assessed using SPSS 24 statistical software, which employed the Pearson Product Moment Correlation. This statistical procedure was determined to be suitable due to its ability to establish a correlation between the independent and dependent variables.

Decision Rule

The null hypothesis is rejected in favour of the alternative hypothesis if the p-value is less than the level of significance (i.e., $p < \alpha$), as stated in the decision rule. This suggests that the results are significant and that the alternative hypothesis is supported. Additionally, the null hypothesis is not rejected when the p-value exceeds the significance threshold (i.e., $p > \alpha$). This suggests that the alternative hypothesis is not supported by sufficient evidence and that the findings are not significant.

Empirical Framework and Analysis

This is related to the presentation and discussion of data and information gathered by use of questionnaires which were given to the respondents in Akwa Ibom State to establish the effect of fuel subsidy removal on economic growth in Nigeria.

Presentation of Data and Analysis

This study effort is organized into three pieces; the first portion presents a descriptive analysis of the respondents' profiles, along with given percentage weightings. The second component is the correlation analysis of the study topics and their corresponding variables. The third aspect is the hypothesis testing of the developed hypotheses in the investigation. Out of the 133 sent surveys, 175 were deemed usable.

Test of Hypotheses

The research hypotheses were tested using SPSS 24 tested at a 0.05% level of significance.

4.2.1 The removal of fuel subsidies and the inflation rate in Nigeria

Table 4.4: The removal of fuel subsidies and the inflation rate in Nigeria

Statements	SA	A	N	D	SD
The removal of fuel subsidies has contributed to the high inflation rate in Nigeria.	63.9 (85)	38 (28.6)	1 (0.8)	5 (3.8)	4 (3)
The removal of fuel subsidies has contributed to the high inflation rate in Nigeria.	63.9 (85)	38 (28.6)	1 (0.8)	5 (3.8)	4 (3)
Inflation is a major concern for your household due to the removal of fuel subsidies.	65 (48.9)	54 (40.5)	4 (3)	6 (4.5)	4 (3)
The government should consider alternative measures to reduce inflation without removing fuel subsidies.	37 (27.8)	46 (34.6)	20 (15.0)	26 (19.5)	20 (15.0)

The removal of fuel subsidies will lead to a fairer distribution of resources in the country.	24 (18)	46 (34.6)	33 (24.8)	21 (15.8)	9 (6.8)
The removal of fuel subsidies is essential to stabilize the Nigerian economy.	20 (15.0)	43 (32.3)	33 (24.8)	25 (18.8)	12 (9.0)

Source: Field Survey, 2023.

The research aimed at determining the degree at which the respondents agreed or disagreed with the above statements concerning the removal of fuel subsidies and the rate of inflation in Nigeria. Based on the results, the research determined that 85 percent of the respondents strongly agreed that the removal of fuel subsidies has led to the high rate of inflation in Nigeria, 48.9 percent strongly agreed that inflation is a major issue to their household due to the removal of fuel subsidies, 34.6 percent agreed that the government should consider other options in reducing the rate of inflation without removing fuel subsidies, 34.6 percent agreed that the removal of fuel subsidies will result to a fairer distribution of resources in the country, and 32.3 percent agreed.

Hypotheses Testing

Hypothesis one

Ho = Fuel subsidy removal does not have a significant effect on inflation in Nigeria.

Hi, = Fuel subsidy removal has a significant effect on inflation in Nigeria.

Table 4.5: Correlation Result
Correlations

		Fuel_Subsidy	Inflation
Fuel_Subsidy	Pearson Correlation	1	.417
	Sig. (2-tailed)		.000
	N	133	133
Inflation	Pearson Correlation	.417	1
	Sig. (2-tailed)	.000	
	N	133	133

Correlation is significant at the 0.01 level (2-tailed).

Source: Computed using SPSS 24.

The Pearson correlation finding shown in Table 4.5 indicates a value less than 0.05, specifically $0.000 < 0.05$; thus, we reject the null hypothesis and conclude that the withdrawal of fuel subsidies significantly impacts inflation in Nigeria.

Fuel Subsidy Removal and Employment in Nigeria

Table 4.6: The removal of fuel subsidies and employment in Nigeria.

Statements	SA	A	N	D	SD
The removal of fuel subsidies will positively impact job creation in Nigeria.	20 (15)	28 (21.1)	10 (7.5)	67 (50.4)	8 (6)
Removing fuel subsidies will lead to higher unemployment rates in Nigeria.	24 (18.0)	51 (38.3)	21 (15.8)	29 (21.8)	8 (6)
The removal of fuel subsidies will disproportionately affect low-income individuals and their job prospects.	59 (44.4)	34 (25.6)	20 (15)	12 (9)	8 (6)
The government should provide alternative support for vulnerable groups if fuel subsidies are removed.	54 (40.6)	54 (40.6)	17 (12.8)	4 (3)	4 (3)
The government will effectively manage the resources saved from the removal of fuel subsidies to benefit employment and economic development.	30 (22.6)	50 (37.6)	8 (6)	21 (15.8)	24 (18)

Source: Field Survey, 2023.

The research aimed at determining the degree to which the respondents agreed or disagreed with the above statements with regard to fuel subsidies removal and employment in Nigeria. Based on the results, the research developed that 50.4 percent of the respondents do not agree that the removal

of fuel subsidies will have positive effects on job creation in Nigeria, 38.3% agree that removing fuel subsidies will lead to higher unemployment rates in Nigeria., 44.4% agree that removal of fuel subsidies will disproportionately affect low-income individuals and their job prospects, 40.6% strongly agree and agree that government should provide alternative support to vulnerable groups in case of removal of fuel subsidies, and 37.6% agree that government will effectively manage the resources saved due to removal of fuel subsidies to benefit employment and economic development.

Hypotheses Testing

Hypothesis two

Ho = Fuel Subsidy Removal has no significant impact on Employment in Nigeria.

Table 4.6: Correlation Result

Correlations

		Fuel_Subsidy	Employment
Fuel_Subsidy	Pearson Correlation	1	.641
	Sig. (2-tailed)		.000
	N	133	133
Employment	Pearson Correlation	.641	1
	Sig. (2-tailed)	.000	
	N	133	133

Correlation is significant at the 0.01 level (2-tailed).

Source: Computed using SPSS 24.

Figure 4.5 shows that the Pearson Correlation value is less than 0.05, with a value of 0.000. This means that the null hypothesis is not true, and it can be said that the removal of the fuel subsidy has a big effect on jobs in Nigeria.

Fuel Subsidy Removal and Economic Growth in Nigeria

Table 4.6: Impact of Fuel Subsidy removal and economic growth in Nigeria

Statements	SA	A	N	D	SD
Nigeria's economy has grown faster since fuel handouts were taken away.	29 (21.8)	17 (12.8)	43 (32.3)	24 (18)	20 (15)
Nigeria's economy as a whole is doing better now that fuel handouts have been taken away.	8 (6)	30 (22.6)	4 (3)	54 (40.6)	37 (27.8)
The cost of living for regular Nigerians has gone up since fuel handouts were taken away.	64 (48.1)	38 (28.6)	9 (6.8)	14 (10.5)	8 (6)
Since fuel handouts were taken away, the government has more money to spend on public services and infrastructure.	45 (33.8)	31 (28.3)	8 (6)	37 (27.8)	12 (9)
Since fuel handouts were taken away, the government has more money to spend on public services and infrastructure.	12 (9)	14 (10.5)	20 (15)	59 (44.4)	28 (21.1)

Source: Field Survey, 2023.

The purpose of the study was to find out how much people agreed or disagreed with claims about how ending petrol handouts would affect Nigeria's economic growth. The poll results showed that 32.3% of people who answered were neutral, which means they didn't have a strong opinion on how ending fuel subsidies would affect economic growth. Additionally, 40.6% of those who answered disagreed with the claim that getting rid of petrol handouts has made Nigeria's economy better as a whole. On the other hand, 48.1% strongly agreed that the end of petrol handouts made life more expensive for most Nigerians. Also, 33.8% strongly agreed that getting rid of petrol handouts brought in more money for the government, which could be used for public services and infrastructure. However, 44.4% disagreed with the claim, saying that stopping petrol handouts has not led to more government money for these kinds of projects.

Hypotheses Testing

Hypothesis Three

Ho = Fuel Subsidy Removal has no significant impact on economic growth in Nigeria.

Table 4.6: Correlation Result

Correlations

		Fuel_Subsidy	EconomicG
Fuel_Subsidy	Pearson Correlation	1	.895
	Sig. (2-tailed)		.000
	N	133	133
EconomicG	Pearson Correlation	.895	1
	Sig. (2-tailed)	.000	
	N	133	133

Correlation is significant at the 0.01 level (2-tailed).

Source: Computed using SPSS 24.

We can see from table 4.6 that the Pearson Correlation finding is less than 0.05, which means that the null hypothesis is not true. Instead, we can say that the removal of the fuel subsidy has a big effect on Nigeria's economic growth.

V. Summary of Major Findings

The study looked at how Nigeria's income inequality has changed since the country's economy has grown. Financial deepening (FID), credit to the private sector (CPS), bank capital to asset ratio (BCAR), population growth (POP), and trade openness (TOP) are the variables that explain what happened in Nigeria from 1990 to 2021. The Gini coefficient (GINI) shows how the economy did financially. The study approach used was ex-post facto, and the secondary data was sourced from the CBN Statistical Bulletin. The study was conducted over a span of 31 years, from 1990 to 2021. The data underwent the Augmented Dickey-Fuller stationarity test to choose the best suitable econometric instrument for analysis. The model was estimated using Autoregressive Distributed Lag (ARDL).

VI. Conclusion

The OLS analysis reveals a negative correlation between financial deepening (FID) and the bank capital to asset ratio (BCAR) with income inequality in Nigeria, indicating that financial deepening significantly affects income inequality, whereas the bank capital to asset ratio has an insignificant impact on inequality. The results also demonstrate that Credit to the private sector (CPS), population growth (POP), and trade openness (TOP) have a positive although negligible connection with income disparity in Nigeria. The hypothesis test indicates that the bank capital to asset ratio (BCAR) and credit to the private sector (CPS) are not significant factors in income inequality, however financial deepening (FID) is important in Nigeria. Consequently, policymakers and the government must promote financial development in Nigeria to alleviate the escalating economic disparity.

Discussion of Major Findings

The investigation demonstrated that the elimination of gasoline subsidies in Nigeria significantly affects inflation. The analysis revealed that the elimination of gasoline subsidies significantly impacts employment in Nigeria. Ultimately, the correlation test indicates that fuel subsidies significantly influence economic development in Nigeria.

VII. Recommendations

It is on the basis of the results of the study that removal of fuel subsidy has a huge impact on the economic growth, inflation and employment in Nigeria that the following recommendations are made to government and policymakers:

Economic Growth

The research has empirically proved that removal of fuel subsidy has a great impact on economic growth in Nigeria. In order to achieve economic growth and stability, the following are some of the steps that the policymakers must consider:

Expand the economy: Invest in other sectors other than oil and gas like agriculture, manufacturing and technology to make the country less dependent on oil revenues.

Enhance infrastructure: Invest in infrastructure such as roads, ports and energy to make doing business easier and to encourage foreign investment.

Promote small and medium enterprises (SMEs): Establish conducive environment in which SMEs can flourish since they are the main economic growth and employment generators.

Inflation

The paper has determined that the removal of fuel subsidy has a great impact on inflation in Nigeria. In a bid to curb the inflationary effect, the following measures should be taken into consideration by the policymakers:

Introduce specific social safety nets: In order to cushion the vulnerable groups against the direct effects of subsidy withdrawal, it may be necessary to implement specific cash transfer schemes, food subsidies or direct assistance to the most vulnerable citizens.

Strengthen the monetary policy: harmonize monetary policy actions to manage inflation and stabilize prices. This can involve changing the interest rates and employing the open market operations well.

Introduce competition in the energy market: Introduce competition and market-based prices in the energy market to minimize the effects of fuel prices on the general inflation.

Employment

The research has determined that the removal of fuel subsidy has great effects on employment in Nigeria. Policymakers ought to consider the following in order to reduce the possible loss of jobs and encourage employment:

Invest in human capital: Invest in education and vocational training to boost the employability of the workforce especially in areas that will not be highly impacted by the removal of fuel subsidy.

Foster labour-intensive industries: Foster industries that can absorb the displaced workers, e.g. agriculture, construction and services.

Encourage employment generation programs: Enact policies that encourage employers to generate more employment opportunities like tax cuts, subsidies on labour intensive sectors and entrepreneurship development schemes.

To sum up, the elimination of fuel subsidies may affect the Nigerian economy in a number of ways and to a considerable extent; however, strategic planning and a set of specific policies can assist in reducing the adverse outcomes and utilizing the possible positive effects to achieve sustainable economic growth, moderate inflation, and increased employment rates. The policymakers ought to consult with stakeholders and observe the situation to make sure that these recommendations are successfully adopted and modified where necessary.

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