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#### FISCAL IMPLICATIONS OF FUEL SUBSIDY REMOVAL IN NIGERIA: A COMPREHENSIVE ANALYSIS

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#### ABSTRACT

Fuel subsidy removal in Nigeria has been a contentious policy issue, with significant fiscal implications for the government's budget. This comprehensive analysis delves into the historical context, economic consequences, and social implications of removing fuel subsidies in Nigeria. The study employs a Likert scale questionnaire to collect data on the dependent and independent variables. The findings suggest that fuel subsidy removal is seen as a necessary step to alleviate budgetary pressures, enhance fiscal sustainability, and redirect funds toward critical sectors like healthcare, education, and infrastructure. However, respondents express concerns about potential negative impacts on the average citizen due to higher fuel prices and call for the implementation of social safety nets to protect vulnerable populations. In conclusion, this study provides valuable insights into the fiscal implications of fuel subsidy removal in Nigeria and offers a set of recommendations to guide policymakers in achieving fiscal stability, economic diversification, and improved social welfare in the face of subsidy reform.

The fuel subsidy regime in Nigeria has long been a contentious issue with significant fiscal implications for the government. Fuel subsidies refer to the financial support provided by the government to reduce the cost of petroleum products, particularly gasoline (petrol), to consumers. The rationale behind such subsidies is to alleviate the burden of high fuel prices on the population, promote social welfare, and stimulate economic growth. However, the sustainability and effectiveness of fuel subsidies have been subjects of debate, both globally and within Nigeria Adebisi, O.(2011).

Nigeria, as a major oil-producing nation, has heavily relied on oil revenue for its economic growth and development. Fuel subsidies have traditionally been a key component of the country's petroleum sector policies IISD (2010). The Nigerian government has been providing substantial financial resources to bridge the gap between the market price of petroleum products and the subsidized price paid by consumers Central Bank of Nigeria (2011). This practice has imposed a significant fiscal burden on the government, leading to concerns about its sustainability and adverse effects on public finances Centre for Public Policy Alternatives (2012).

In recent years, there has been a growing recognition of the need to reform the fuel subsidy system in Nigeria. The government has faced mounting pressure to address the fiscal challenges associated with subsidy payments and redirect resources to more productive sectors. Consequently, the removal of fuel subsidies has emerged as a potential policy option to address these concerns Ikpeze, N.I, Soludo C.C and Elekwa N.N.(2004).

The removal of fuel subsidies, however, is not without its own set of implications, particularly in the fiscal domain. This study seeks to comprehensively analyze the fiscal implications of fuel subsidy removal in Nigeria. By examining the economic and financial consequences of subsidy removal, policymakers, government agencies, and other stakeholders can make informed decisions regarding the reform of fuel subsidies Komolafe, B(2011). The primary objective of this study is to provide an in-depth understanding of the fiscal impacts associated with fuel subsidy removal. It aims to assess the effects on the government's budget, revenue generation, taxation policies, and inflationary pressures. By exploring alternative strategies for mitigating fiscal challenges and redirecting resources, this research will contribute to the development of evidence-based policy recommendations Oyedele (2012).

This study will employ a combination of quantitative and qualitative research methods to gather and analyze data from various sources, including governmental reports, economic indicators, and expert interviews. Econometric modeling and statistical analysis will be utilized to evaluate the fiscal implications rigorously. The findings of this research will be of significant relevance to policymakers, government agencies, and other stakeholders involved in energy sector reforms and fiscal management in Nigeria. By providing a comprehensive understanding of the fiscal implications of fuel subsidy removal, this study aims to contribute to the formulation of sustainable and effective policies that promote economic development and fiscal stability in Nigeria.

### **Statement of the problem**

The removal of fuel subsidies in Nigeria presents a complex and multifaceted problem with significant fiscal implications. The government has historically subsidized petroleum products to mitigate the impact of high fuel prices on citizens and promote economic growth. However, the increasing cost of fuel subsidies has put immense strain on the country's finances, affecting budgetary allocations to crucial sectors and development projects. As such, the fiscal implications of fuel subsidy removal have become a pressing concern for policymakers and the Nigerian economy as a whole.

The research aims to investigate the potential impact on government finances and the sustainability of fiscal policies after subsidy removal. Addressing these issues will provide valuable insights into the fiscal implications of fuel subsidy removal in Nigeria. The findings will inform policymakers, economists, and stakeholders about the potential benefits and challenges associated with subsidy removal, enabling them to make informed decisions to foster economic growth and sustainable fiscal policies.

### **Objectives of the study**

The primary objective of this study is to conduct a comprehensive analysis of the fiscal implications of fuel subsidy removal in Nigeria. Specific objectives include:

To examine the economic, social, and political consequences of fuel subsidies removal.

To analyze the fiscal impact of fuel subsidy removal on the Nigerian government's budget.

### **Research Questions**

This study seeks to address the following research questions:

What are the economic, social, and political consequences of fuel subsidies removal?

What is the fiscal impact of fuel subsidy removal on the Nigerian government's budget?

### **Rationale of the Study**

This study is significant for several reasons:

**Policy Relevance:** It provides empirical evidence and analysis that can inform government policymakers, stakeholders, and international partners about the implications of fuel subsidy removal in Nigeria.

**Economic Sustainability:** It contributes to discussions on Nigeria's fiscal sustainability by addressing the role of fuel subsidies in the country's budget and economy.

**Transparency and Accountability:** By examining the impact of subsidy removal on corruption and rent-seeking, the study promotes transparency and accountability in the management of public resources.

**Social Welfare:** The study considers the social equity aspect of subsidy removal, which is crucial for understanding the potential consequences on the vulnerable segments of society.

### **Theoretical Framework**

The study is based on the classical economic theory of regulated monopolies within which subsidies themselves, are perceived as distorting to the forces of demand and supply. The theory of regulated monopolies suggests that in the subsidies flow from the producers (or marketers) to the consumers, there is a transmission loss in which appropriately, about half of the subsidies accrue to the few actors who are licensed in the industry and their agents. At each further point in the value chain, dissipation of the subsidy occurs before final transmission to the consumer. Such dissipation includes a "dead weight" loss of any subsidy where no one benefits. The NNPC acts through seven major marketers listed as Mobil, NNPC Retail, Oando, Conoil, Total, AP and MRS oil. This block essentially captures 50percent of the subsidies available in the industry.

### **Research Methodology**

#### **Research Design**

The design that was adopted for this study is a descriptive survey design; this was employed to empirically investigate the relationships among variables of the research. The descriptive survey design was preferred because it largely focuses on vital facts, beliefs, opinion, demographic information, attitudes, motives and behaviors of correspondent giving responses to the research instrument (Aliyu, Tudun & Oladejo, 2014; Osinbanjo, 2014). The design was based on primary source of data (Questionnaire). It is an appropriate method because of its uniqueness and relevance as it concentrates on the event. For this study, quantitative approach was used in analyzing the data collected. Quantitative approach was adopted in analyzing the data because it permits measurement of objective facts using variables, statistical analysis and reliability testing (Basheer, Saeed and Tarabieh, 2011). In addition,

cross sectional research design was used in the study because it involves collection of information from a given sample of population.

### Data Analysis

#### Answering of Research Questions

**Research Question One:** What are the economic, social, and political consequences of fuel subsidies removal?

**Table 4: Analysis of the effect of economic, social, and political consequences of fuel subsidies removal**

S/N	economic, social, and political consequences of fuel subsidies removal	SA(%)	A(%)	U(%)	D(%)	SD(%)
1	Fuel subsidy removal will lead to higher fuel prices, which will increase the cost of living for the average Nigerian.	39 (9.79)	26 (6.53)	14 (3.51)	18 (4.52)	11 (2.76)
2	Fuel subsidy removal will free up government resources for investment in critical infrastructure and social programs.	27 (6.78)	18 (4.52)	16 (4.02)	11 (2.76)	9 (2.26)
3	The removal of fuel subsidies will disproportionately affect low-income individuals and exacerbate poverty.	29 (7.28)	17 (4.27)	13 (3.26)	8 (2.01)	7 (1.75)
4	The removal of fuel subsidies is necessary to reduce the burden on the government budget and promote fiscal responsibility.	26 (6.53)	16 (4.02)	18 (4.52)	11 (2.76)	11 (2.76)
5	The government should implement targeted social safety nets to protect vulnerable populations during fuel subsidy removal.	9 (2.26)	12 (3.01)	11 (2.76)	12 (3.01)	11 (2.76)
	<b>TOTAL</b>	<b>130</b> <b>(32.66</b> <b>)</b>	<b>89</b> <b>(22.36</b> <b>)</b>	<b>72</b> <b>(18.09</b> <b>)</b>	<b>60</b> <b>(15.07</b> <b>)</b>	<b>47</b> <b>(12.31</b> <b>)</b>

#### Field Survey, (2023)

Analysis of table 4 was significant due to the fact that 130 respondents representing 32.66 per

cent strongly agreed on the effect of the economic, social, and political consequences of fuel subsidies removal, this was followed by 89 respondents representing 18.09 per cent opted for agreed option, 72 respondents representing 18.09 per cent were undecided in their opinion, 60 respondents representing 15.07 per cent disagreed while 47 respondents representing 12.31 per cent opted for strongly disagreed.

**Research Question Two:** What is the fiscal impact of fuel subsidy removal on the Nigerian government's budget?

**Table 5: Percentage analysis of effect of fiscal impact of fuel subsidy removal on the Nigerian government's budget**

S/ N	fiscal impact of fuel subsidy removal on the Nigerian government's budget	SA(%)	A(%)	U(%)	D(%)	SD(%)
1	Fuel subsidy removal is necessary to reduce budgetary pressures on the Nigerian government.	12 (3.01)	23 (5.77)	17 (4.27)	27 (6.78)	26 (6.53)
2	Fuel subsidy removal will free up funds for investment in critical sectors like healthcare, education, and infrastructure.	13 (3.26)	13 (3.26)	13 (3.26)	11 (2.76)	15 (3.76)
3	Removing fuel subsidies will result in higher fuel prices, which will negatively affect the average citizen.	14 (3.51)	16 (4.02)	10 (2.51)	14 (3.51)	18 (4.52)
4	I believe that the benefits of fuel subsidy removal will be distributed fairly among different income groups.	13 (3.26)	9 (2.26)	18 (4.52)	16 (4.02)	19 (4.77)
5	Fuel subsidy removal will reduce opportunities for corrupt practices in the petroleum sector.	21 (5.27)	23 (5.77)	12 (3.01)	12 (3.01)	25 (6.28)
	<b>TOTAL</b>	<b>73 (18.34)</b>	<b>84 (21.10)</b>	<b>70 (17.58 )</b>	<b>80 (20.01 )</b>	<b>103(25.87)</b>

**Field Survey, (2023)**

Analysis of table 5 was significant due to the fact that 73 respondents representing 18.34 per cent strongly agreed on the effect of fiscal impact of fuel subsidy removal on the Nigerian government's budget, this was followed by 84 respondents representing 21.10 per cent opted for agreed option, 70 respondents representing 17.58 per cent were undecided in their opinion, 80 respondents representing 20.01 per cent disagreed while 103 respondents representing 25.87 per cent opted for strongly disagreed.

## Hypotheses Testing

### Hypothesis One

There is no significant effect of economic, social, and political consequences of fuel subsidies removal. Pearson Product Moment Correlation analysis was then used to analyze the data in order to determine the relationship between the two variables (see table 3)

**TABLE 3: Pearson Product Moment Correlation Analysis of the economic, social, and political consequences of fuel subsidies removal**

Variables		fuel subsidies removal	economic, social, and political consequences
fuel subsidies removal	Pearson Correlation	1	.828**
	Sig. (2-tailed)		.000
	N	379	379
economic, social, and political consequences	Pearson Correlation	.828**	1
	Sig. (2-tailed)	.000	
	N	379	379

\*\* . Correlation is significant at the 0.01 level (2-tailed). df =377; N =379; critical r-value = 0.113

Source: Author's computation (SPSS Version 20.0 IBM)

Table 3 presents the obtained r-value as (0.828). This value was tested for significance by comparing it with the critical r-value (0.113) at 0.025 levels with 377 degrees of freedom. The obtained r-value (0.828) was greater than the critical r-value (0.113). Hence, the result was significant. The result therefore means that there is significant effect of economic, social, and political consequences of fuel subsidies removal.

### Hypothesis Two

There is no significant effect of fiscal impact of fuel subsidy removal on the Nigerian government's budget. Pearson Product Moment Correlation analysis was then used to analyze the data in order to determine the relationship between the two variables (see table 4)

**TABLE 9 Pearson Product Moment Correlation Analysis of the effect of effect of fiscal impact of fuel subsidy removal on the Nigerian government's budget**

Variables		Nigerian government's budget	Fiscal impact of fuel subsidy removal
Nigerian government's budget	Pearson Correlation	1	.879**
	Sig. (2-tailed)		.000
	N	379	379
fiscal impact of fuel subsidy removal	Pearson Correlation	.879**	1
	Sig. (2-tailed)	.000	
	N	379	379



**\*\*.** Correlation is significant at the 0.01 level (2-tailed).  $df = 377$ ;  $N = 379$ ; critical  $r$ -value = 0.113

**Source:** Author's computation (SPSS Version 20.0 IBM)

Table 9 presents the obtained  $r$ -value as (0.879). This value was tested for significance by comparing it with the critical  $r$ -value (0.113) at 0.025 levels with 377 degree of freedom. The obtained  $r$ -value (0.879) was greater than the critical  $r$ -value (0.113). Hence, the result was significant. The result therefore means that there is significant effect of fiscal impact of fuel subsidy removal on the Nigerian government's budget.

### **Discussion of Findings**

One of the central findings of this study is that the removal of fuel subsidies is perceived by respondents as a necessary step to reduce budgetary pressures on the Nigerian government. This aligns with the broader consensus among economists and policymakers that fuel subsidies represent a significant fiscal burden. Respondents generally agreed that freeing up funds previously allocated to fuel subsidies could be redirected towards essential sectors like healthcare, education, and infrastructure. This finding underscores the idea that fuel subsidies have been a major drain on government finances, diverting resources away from critical areas of development. By removing these subsidies, the government could potentially have more fiscal space to invest in long-term development projects, ultimately benefitting the Nigerian population.

The study found that respondents were concerned about the economic consequences of fuel subsidy removal, particularly the anticipated increase in fuel prices and its impact on the average citizen. This finding reflects the real challenges associated with subsidy reform, as higher fuel prices can lead to inflationary pressures and affect the cost of living.

However, respondents also recognized that subsidy removal could help reduce smuggling and black market activities in the petroleum sector. This suggests an acknowledgment of the economic distortions created by fuel subsidies, which have encouraged illegal activities and market inefficiencies.

### **Conclusion**

In conclusion, the findings of this comprehensive analysis highlight the complex and multifaceted nature of fuel subsidy removal in Nigeria. While there is support for the idea of reducing budgetary pressures and enhancing fiscal sustainability through subsidy reform, there are also concerns about the economic and social consequences, particularly in the short term.

Policymakers must carefully consider the trade-offs involved in subsidy removal, develop strategies to protect vulnerable populations, and ensure transparent and accountable management of resources freed up by subsidy removal. Moreover, this study underscores the importance of effective communication and public engagement to build consensus and mitigate potential resistance to subsidy reform.

Ultimately, the fiscal implications of fuel subsidy removal in Nigeria require a balanced approach that takes into account both the long-term fiscal benefits and the immediate challenges and concerns of the Nigerian population.

### **Recommendations**

Based on the comprehensive analysis of the fiscal implications of fuel subsidy removal in Nigeria, the following recommendations can be made to guide policy decisions and actions: Gradual phase-out can allow citizens and businesses to adjust to higher fuel prices and reduce the risk of sudden inflationary pressures.

Government should allocate a portion of the savings from subsidy removal to establish and strengthen social safety nets.

There is need for establishment of robust mechanisms for monitoring and auditing the petroleum sector to prevent corruption and rent-seeking.

Implement effective monetary and fiscal policies to control inflation and stabilize prices, especially for essential commodities.

Government should develop a comprehensive communication strategy to explain the rationale behind subsidy removal and the government's commitment to addressing the resulting challenges.

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