

## FUEL SUBSIDY REMOVAL AND THE NIGERIAN ECONOMY

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### **Abstract**

Fuel subsidy has been a defining feature of Nigeria's economic landscape since the 1970s, introduced to cushion citizens against global oil price volatility and to support fuel-dependent sectors. However, the regime became fiscally unsustainable, reportedly costing over ₦1 trillion annually, and was associated with corruption, smuggling, and economic inefficiencies. On May 29, 2023, Bola Ahmed Tinubu announced the removal of the fuel subsidy, citing the absence of budgetary provision and the need to redirect funds to critical sectors such as infrastructure, healthcare, and education. This policy shift triggered immediate and far-reaching consequences for the Nigerian economy. The removal contributed to a surge in cost-push inflation, with transport fares rising significantly and food prices increasing sharply, thereby eroding the purchasing power of low-income households and exacerbating poverty levels. Small and medium-sized enterprises (SMEs), heavily reliant on petrol-powered generators due to unreliable electricity supply, experienced declining profit margins, with some forced to scale down operations or shut down. While the government introduced palliative measures such as cash transfers and the Compressed Natural Gas (CNG) initiative, critics argue that these interventions have been insufficient and poorly targeted. Conversely, the policy has created fiscal space, reduced pressure on the budget, curtailed fuel smuggling to neighboring countries, and accelerated reforms under the Petroleum Industry Act. The operationalization of the Dangote Refinery is expected to enhance energy security by reducing dependence on fuel imports. The long-term success of subsidy removal depends on transparent reinvestment of savings, the strengthening of social safety nets, and sustained macroeconomic stability. This paper evaluates the implications of the 2023 subsidy removal on Nigeria's economy and recommends strategies to mitigate short-term hardship while maximizing long-term developmental gains.

**Keywords:** Fuel Subsidy, Refinery, Inflation, Nigerian Economy, Purchasing Power

### **INTRODUCTION**

Fuel subsidy is a financial assistance provided by the government to reduce the cost of fuel price for consumers. It is done to keep fuel prices lower and make it more affordable for the general population particularly for low-income households and to support economic activities that rely heavily on fuel such as transportation. Fuel subsidy also means the fraction of the price that consumers are supposed to pay to enjoy the use of petroleum products are paid by the government so as to ease the price burden

Nigeria's fuel subsidy regime, introduced in the 1970s, has been a contentious issue, with the government shouldering the burden of fuel costs to cushion the effects of rising global oil prices on citizens. However, this has led to economic inefficiencies, corruption, and a significant drain on the country's resources

The subsidy has been unsustainable, with the government spending over N1 trillion annually on fuel imports. The subsidy regime went through various phases, with different administrations attempting to remove or reduce it. However, it wasn't until President Bola Ahmed Tinubu's administration that the subsidy was finally removed in May 2023, citing unsustainability and the need to redirect funds to critical sectors. The removal of fuel subsidies, announced by President Bola Ahmed Tinubu in May 2023, aimed to redirect these funds to critical sectors like infrastructure, healthcare, and education

The decision is expected to have far-reaching impacts on the economy, including increased inflation, potential job losses, and hardship for low-income households. The government has introduced measures to mitigate these effects, such as cash transfers and social programs

The Federal government, especially under the previous administration of Goodluck Jonathan had introduced measures to mitigate the effects, including cash transfers, grants, and social programs. However, critics argue that these efforts were insufficient and poorly targeted.

Economic analysts and commentators have argued in favour or against subsidy removal with varying supporting claims. It has been observed that despite fuel subsidy, the Federal government of Nigeria has increased borrowing leading to high inflation rates. The removal has also led to the sharp increase in the price of commodities in the market, causing severe suffering and excruciating pains among ordinary citizens of Nigeria which the government has barely addressed. This paper evaluates the implications of the fuel subsidy removal on the Nigerian economy and how the situation could be best managed.. A qualitative approach was adopted in explaining the historical investigations as to gain a proper understanding of the real effect of the fuel subsidy removal on Nigerians. The data for this paper is collected from primary, secondary and tertiary sources. The primary sources include, newspaper publications, official government documents, reports and publications.

## **THE FUEL SUBSIDY REGIME IN NIGERIA**

Nigeria ran two forms of subsidy before the inauguration of Tinubu's administration. The first is the payment of the difference between the actual pump price of petrol which is arrived at after calculating the landing cost and the extant margins and the other is the cost of transportation paid on every litter to ensure that the price of petrol is similar across the country Subsidies exist because the government fixes the price of Petrol for consumers below the international price and uses government resources to pay for the difference, therefore the purpose of fuel subsidy removal is to lower fuel price cost and ease the burden on consumers and stability the economy by controlling inflation pressures.

The history of Nigeria is deeply ingrained in the gasoline subsidy. Higher expenses resulted from the country's oil being processed in Europe and then brought back. The government offered subsidies to help consumers with this financial burden. This subsidy affected the prices of nearly all goods and services in the country because it was closely tied to fuel prices. The subsidy was first implemented in the 1970s as a response to fluctuating oil prices around the world. Over time, it solidified and developed to represent a significant financial burden for the government.

The Nigerian economy has been subsidized in various ways for many years and this includes fuel, education, electricity, forex etc. Fuel subsidies began in the 1970s and became institutionalised in 1977, following the promulgation of the Price Control Act which made it illegal for some products (including petrol) to be sold above the regulated price.<sup>1</sup> While the concept of subsidy itself is noble, its administration in Nigeria has been plagued with serious allegations of corruption and mismanagement. Over the decades, the system transitioned from a tool for social welfare into a significant fiscal burden characterized by systemic corruption and smuggling.

Throughout the 1980s and 1990s, military regimes attempted various "price adjustments" to align with the Structural Adjustment Program (SAP), often leading to civil unrest. As part of the Structural Adjustment Program (SAP), the military government under General Ibrahim Babangida implemented the first partial removal. This caused petrol prices to rise from 20 kobo to 39 kobo, and later to 42 kobo per litre, instigating the first major nationwide fuel protests in Nigeria's history in 1988.<sup>2</sup>

By the mid-2000s, the establishment of the Petroleum Support Fund (PSF) formalised payments to private importers, which led to a massive spike in subsidy expenditures.<sup>2</sup>

In the fourth republic under o President Olusegun Obasanjo, the Petroleum Product Pricing Regulatory Agency (PPPRA) was established to oversee price regulation. 2006: The Petroleum Support Fund (PSF) was created to allow private marketers to participate in fuel importation alongside the NNPC. President Olusegun Obasanjo made multiple attempts to deregulate the downstream sector. Although he successfully raised prices several times, full deregulation was abandoned due to repeated strikes by the Nigeria Labour Congress (NLC).<sup>3</sup> During this era, deep economic challenges like currency devaluation and high inflation forced frequent adjustments to the subsidy to manage public hardship.

On January 1, 2012, President Goodluck Jonathan announced a full removal of the subsidy, causing prices to jump from ₦65 to ₦141 per litre. This led to the "Occupy Nigeria" protests, which brought the country to a standstill. Under extreme pressure, the government partially reinstated the subsidy and reduced the price to ₦97.<sup>4</sup> In 2016, President Muhammadu Buhari announced a "complete removal" and raised the price from ₦86 to ₦145. While the subsidy on kerosene was successfully eliminated during this period, the government eventually returned to subsidising petrol due to rising international oil prices and currency devaluation.<sup>5</sup>

In May 2023, President Bola Tinubu declared that "subsidy is gone" during his inaugural speech. This final removal was facilitated by the fact that the previous administration had made no budgetary provision for subsidies beyond June 2023.<sup>6</sup> These attempts have been driven by the desire to reduce government spending, promote economic efficiency, and redirect funds to critical sectors like healthcare and education. However, they have often been met with concerns about the impact on low-income households and the economy.

### **SUBSIDY IS GONE SPEECH BY PRESIDENT TINUBU**

President Bola Tinubu declared "the fuel subsidy is gone" in his inaugural speech on May 29, 2023, marking a significant shift in Nigeria's economic policy. He stated that the 2023 budget didn't provision for fuel subsidy, and its removal would redirect funds to critical sectors like infrastructure, education, healthcare, and job creation.<sup>7</sup>

In his speech, Tinubu emphasized that the subsidy regime had become unsustainable, favoring the rich more than the poor. He assured Nigerians that the move would stimulate economic growth, create jobs, and improve living standards. The decision led to an immediate increase in fuel prices, with some stations selling petrol at ₦700 per litre.<sup>8</sup>

Tinubu reiterated his commitment to this policy, stating it was necessary to prevent Nigeria's bankruptcy and protect future generations. He highlighted the government's efforts to cushion the impact, including initiatives like the Compressed Natural Gas (CNG) program and increased allocations to states and local governments.

### **ARGUMENT FOR OR AGAINST FUEL SUBSIDY REMOVAL**

The debate over fuel subsidy removal in Nigeria, intensified by President Bola Tinubu's "subsidy is gone" declaration in May 2023, remains a central pillar of the nation's economic discourse as of April 2026. While the government maintains that the reform is a fiscal necessity to prevent national insolvency, the populace continues to grapple with severe inflationary pressures and a deepened cost-of-living crisis.

Supporters of the removal, including the Federal Government and international financial institutions like the International Monetary Fund (IMF), argue that the subsidy was economically unsustainable and structurally flawed.<sup>9</sup>

**Fiscal Stability and Debt Reduction:** By April 2026, officials estimated that continuing the subsidy would have cost Nigeria approximately trillion for the year, consuming roughly of the national budget. Removal has freed up significant cash inflows for the Federation Account, theoretically allowing for reinvestment in infrastructure and social services.<sup>10</sup>

**Curbing Systemic Corruption:** The subsidy regime was historically marred by "rent-seeking" and fraud, where marketers inflated import figures to claim higher payments. Deregulation is intended to end these leakages and ensure the government only pays for actual domestic consumption.<sup>11</sup>

**Market Efficiency and Investment:** Deregulation encourages private sector investment in the downstream sector, particularly in domestic refineries like the Dangote Refinery, reducing dependence on imported fuel.<sup>12</sup>

**Market Efficiency and Local Refining:** The policy aims to incentivize domestic production. The Dangote Refinery, with its barrels-per-day capacity, is a cornerstone of this strategy, intended to reduce foreign exchange pressure by ending the need for fuel imports.<sup>13</sup>

**Environmental Benefits:** Removing subsidies discourages over-consumption of fossil fuels, aligning with climate goals to reduce carbon emissions and air pollution.<sup>14</sup>

Critics and labor unions emphasize the immediate, devastating impact on the average citizen's quality of life.

**Skyrocketing Inflation:** Fuel is the primary energy source for transportation and power generation in Nigeria. Its removal led to an immediate spike in transportation costs, food prices, and general inflation, which reached nearly two-decade highs by 2024.<sup>15</sup>

**Increased Poverty and Inequality:** Low-income earners spend a larger portion of their income on basic needs. Without robust safety nets, the policy has widened the gap between the rich and the poor, pushing millions into extreme poverty.<sup>16</sup>

Distress for Small and Medium Enterprises (SMEs): Many businesses that rely on petrol generators due to unstable electricity have faced collapsed profit margins or total closure, leading to significant job losses in the informal sector.<sup>17</sup>

Inadequate Social Safety Nets: While the government introduced palliatives—such as cash transfers and transport allowances—critics argue these measures are often insufficient, poorly targeted, or plagued by transparency issues, failing to reach the most vulnerable.<sup>18</sup>

Social Unrest: Significant price hikes have historically triggered mass protests and strikes, as seen in the 2012 "Occupy Nigeria" movement and subsequent unrest in 2023.

In as much as these opposing groups of experts presented valid points why fuel subsidy should be maintained or rescinded, the harsh reality is that the purchasing power of money in the hands of the ordinary citizens of Nigeria had been greatly reduced since that 'subsidy is gone' speech by President Ahmed Bola Tinubu was delivered. The immediate impacts of that reckless action cannot be understated.

## **2023 FUEL SUBSIDY REMOVAL AND THE NIGERIAN ECONOMY**

The removal of the fuel subsidy in Nigeria, initiated in May 2023, represents one of the most significant and controversial policy shifts in the nation's post-colonial history. While the government argues that the subsidy was fiscally unsustainable and prone to corruption, the immediate impact on the citizenry has been profound. The enormous implications of this policy for the Nigerian economy since 2023 are highlighted below.

### **Fiscal Space and Debt Management**

For decades, the fuel subsidy acted as a drain on the federation account, often exceeding the total revenue generated from oil sales. By 2022, Nigeria spent ₦4.39 trillion on subsidies, forcing the government to borrow heavily for recurrent expenditure. Removing the subsidy has significantly increased the revenue available for distribution among the three tiers of government, aimed at reducing the budget deficit and slowing the accumulation of sovereign debt.<sup>19</sup>

### **Cost-Push Inflation and Diminished Purchasing Power**

The most immediate and painful effect has been the surge in headline inflation, which hit 30-year highs in 2024. Unlike demand-pull inflation, this was "cost-push," driven by the tripled cost of transportation and energy. Because fuel powers the logistics of nearly every consumer good, the price of food and services skyrocketed, leading to a drastic contraction in the real income and purchasing power of the Nigerian middle and lower classes.<sup>20</sup>

### **Impact on Transportation and Logistics**

The transportation sector, which relies almost exclusively on Premium Motor Spirit (PMS), saw an overnight increase in fares by over 100% in many regions. This has not only affected personal mobility but has increased the "farm-to-market" costs for agricultural produce. The resulting increase in food prices has been the primary driver of food insecurity in urban centers.<sup>21</sup>

### **Vulnerability of Small and Medium Enterprises (SMEs)**

Nigeria's unstable power grid makes petrol-powered generators essential for small businesses, from barbershops to cold rooms. The removal of the subsidy tripled the cost of self-powering, forcing many small-scale entrepreneurs to either hike prices—risking customer loss—or shut down entirely. This has contributed to rising unemployment in the informal sector.<sup>22</sup>

### **Exchange Rate Volatility and the Naira**

The subsidy removal coincided with the unification of the foreign exchange windows. Previously, the subsidy masked the true demand for Dollars needed for fuel imports. With the subsidy gone and the market deregulated, the increased demand for foreign exchange to import petrol at market rates contributed to the sharp depreciation of the Naira against the US Dollar.<sup>23</sup>

### **Curtailed Smuggling and Arbitrage**

One of the major economic "leaks" addressed by this policy was the illegal siphoning of subsidized fuel to neighboring West African countries. When Nigeria's fuel was artificially cheap, smugglers made massive profits selling it in Benin, Niger, and Cameroon. Market-reflective pricing in Nigeria has significantly reduced the profitability of this illegal trade, ensuring that fuel imported for Nigeria stays within its borders.<sup>24</sup>

### **Market Liberalization and the Petroleum Industry Act (PIA)**

The removal is a full implementation of the Petroleum Industry Act 2021. It transitions the downstream sector from a regulated monopoly to a competitive market. In the long term, this is intended to attract private investment in storage, distribution, and retail infrastructure, as investors are no longer afraid of government-imposed price caps that do not reflect global crude prices.<sup>25</sup>

### **Domestic Refining and the Dangote Refinery**

A critical pillar of the post-subsidy era is the shift to local refining. The commencement of petrol production at the Dangote Refinery is expected to save the economy billions in freight and port costs. While it may not significantly drop prices due to global crude benchmarking, it provides "energy security" and reduces the logistical bottlenecks of importing refined products from Europe.<sup>26</sup>

### **Transition to Alternative Energy (CNG)**

The economic shock has accelerated the government's "Presidential Compressed Natural Gas Initiative" (Pi-CNG). To mitigate high petrol costs, the government is incentivizing the conversion of commercial vehicles to CNG, which is significantly cheaper and more abundant in Nigeria. This shift aims to diversify Nigeria's energy mix and lower long-term transport costs.<sup>27</sup>

### **Social Unrest and the Demand for Accountability**

The policy has led to significant social friction, characterized by nationwide protests and strikes. The Nigerian public has demanded that the trillions of Naira "saved" from the subsidy be transparently accounted for through investments in healthcare, education, and a living wage. The success of the policy now depends on the government's ability to prove that the "pain" of removal is leading to "gain" in public infrastructure.<sup>28</sup>

## **CONCLUSION**

The removal of fuel subsidy in May 2023 marks a watershed moment in Nigeria's economic policy, bringing to an end a decades-long regime that had become fiscally unsustainable and widely associated with inefficiencies and corruption. While the decision has created much-needed fiscal space, curtailed cross-border smuggling, and laid the groundwork for a more deregulated downstream sector anchored by domestic refining capacity, its immediate socioeconomic costs have been significant.

Ordinary Nigerians have borne much of the impact through cost-push inflation, reduced purchasing power, and rising poverty levels, with small and medium-sized enterprises (SMEs) and low-income households disproportionately affected. Government palliative measures have, in many cases, been viewed as insufficient to fully cushion these effects, contributing to public dissatisfaction and social tension.

Ultimately, the success of subsidy removal will depend not only on the policy itself but on how transparently and effectively the savings are reinvested into critical infrastructure, social protection systems, and energy transition initiatives such as Compressed Natural Gas (CNG). If managed with accountability and a clearly defined pro-development agenda, the policy could support long-term economic stability and growth. Conversely, weak implementation may exacerbate inequality and erode public trust.

The post-subsidy era therefore presents both an opportunity and a test: an opportunity to reposition Nigeria's economy on a more sustainable path, and a test of the government's capacity to translate short-term adjustment costs into broad-based, long-term benefits for its citizens.

## **RECOMMENDATIONS**

The harsh reality is that the 2023 fuel subsidy removal affected many citizens of Nigeria negatively. In order to address these effects, the paper hereby recommends as follows.

The Federal government should invest in affordable public transport systems, including CNG-powered buses, to directly reduce transport costs for low-income earners.

The government at all levels should introduce targeted food vouchers or price support for staple foods to mitigate the cost-push inflation on households.

The FG should provide subsidies, loans, or tax breaks for conversion of commercial vehicles to Compressed Natural Gas. Build CNG refueling infrastructure nationwide.

The FG should address electricity grid instability to reduce SME dependence on petrol generators, lowering their operating costs.

There should be incentives for solar power installations for households and small businesses to diversify energy sources.

The FG should create special intervention funds for SMEs hit by high energy costs, especially in transport, agriculture, and manufacturing.

Temporary tax breaks or waivers should be offered for small businesses to help them adjust to higher operating expenses.

The FG should Channel saved funds into vocational training and job creation in sectors like construction, agriculture, and tech.

The FG should coordinate fiscal and monetary policy to control inflation, including managing FOREX demand for fuel imports.

Dangote Refinery and other modular refineries should be highly encouraged to come fully on stream to reduce import costs and improve energy security.

A unified, market-reflective exchange rate should be maintained to reduce distortions and attract investment.

For future reforms, gradual implementation with robust palliatives in place should be considered before price shocks hit the vulnerable citizens who are most unprepared.

Technology should be used to monitor fuel distribution and prevent diversion, hoarding, or price manipulation.

The FG should demonstrate commitment to ending rent-seeking by investigating and prosecuting subsidy-related corruption cases.

The pain of subsidy removal is already being felt. The government must now ensure the gains are visible, equitable, and sustained. Without transparent reinvestment and strong social protection, the policy risks entrenching hardship rather than delivering long-term growth.

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