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Article

Nigeria's Economic Crisis in the Aftermath of the Petroleum Subsidy Removal

Sulaiman Bashir

¹Department of History & Strategic Studies, Federal University Dutsin-Ma, Katsina State, Nigeria
Correspondence Email: is_bashir@yahoo.co.uk

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Abstract

The Nigerian government introduced subsidies on petroleum products many years ago and continued to do so despite the enormous resources the subsidy continues to swallow. But, as time went on, it was realized that such subsidies on petroleum products could not be sustained by the state; therefore, at various intervals, the subsidies were removed on AGO and DPK; while the state continues to offer subsidies on PMS. Soon, the Nigerian state realized there is massive corruption in the subsidy coupled with its effect on the economy such as on the general performance of the state in terms of provision of services and infrastructural development. Based on these backdrops on the performance of the state, it was envisaged that the removal of subsidy on PMS could end such reckless state expenditure and curtail corrupt practices on the subsidy. Accordingly, the subsidy was finally removed without any consideration of its socio-economic implications on Nigerian citizens. This work explores the nature, causes, and effects of the petroleum subsidy removal on Nigerian citizens.

Keywords: petroleum, subsidy, economy, corruption, resilience

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Introduction

Nigeria, a country in West Africa, is blessed with abundant natural and human resources; chief among the natural resources is crude oil, being the principal export commodity that accounts for about 80% of the foreign exchange earned as revenue from the sales of two million barrels per day (2m bpd).¹ No doubt, Nigeria is among the top ten crude oil producing countries globally; hence, a frontline member of the multinational body of the Organization of Petroleum Exporting Countries (OPEC) which regulates oil price, supply, and quantity worldwide to safeguard prices crashes due to oversupply of the product in the world markets.²

For a long time, Nigerian citizens have been enjoying the intervention of their state as subsidies are floated as regards the welfare of its citizens; which forms part of the core provisions of the constitution of Nigeria which highlights the importance of the general welfare of the citizens as contained in chapter II of section 14(2)b of the 1999 constitution (as amended).³ This effort by the Nigerian state was often thwarted by some unscrupulous elements in the petroleum business at the downstream sector, by inflating the figures as regards the number of liters consumed by Nigerian citizens, which is calculated and remitted to the marketers' accounts at specific intervals per annum as subsidies in line with constitution of the state as welfare for the citizens.⁴

Consequently, as the subsidies continue to be paid by the Nigerian state into the coffers of the marketers in the downstream sector, the amount being paid continues to swallow a sizeable amount of the Nigerian state revenues, to the extent that every year the budget of the state continues to records deficit. And as such, several attempts were made to cut down the number of various subsidies offered in the petroleum

sector downstream, to enable the government to improve its services in the provision of infrastructures and to boost industrialization among other targeted projects.⁵

It is all right for a sensible person to reason with the Nigerian state's mission and vision regarding subsidy removal. However, the stages and steps adopted by Nigerian leaders towards the actualization of the removal of the subsidy seem not feasible and impracticable; as was conceived by the majority of the Nigerian citizenry. This effort of the Nigerian leaders to remove subsidies in the petroleum downstream sector met with fierce resistance. A series of protests were held against it as well as strikes were embarked upon to persuade the government to maintain the status quo as far as subsidy in the petroleum downstream sector is concerned. At the end, the state was made to reconsider the situation and made partial adjustments to the subsidy not outright removal.

Finally, on the 29th of May 2023, at the swearing-in of the newly elected president, Bola Tinubu, he declared the total removal of the subsidy as he had promised during his campaign tours across Nigeria. This single act of the president-elect at the swearing-in ceremony translates into many socio-economic crises which continue to affect all facets of the Nigerian citizens' lives, hence, a new wave of political tension and atmosphere of uncertainty ushered in politically, as citizen's reverence for the regime has been waned due to the myriad negative effects of the petroleum subsidy removal.

History of Petroleum Subsidy in Nigeria

Historically, the Nigerian economy has been subsidized in various ways for many years, and the subsidies floated by the Nigerian government are many of which include: agricultural inputs (fertilizer),

¹ D. Pade, "Nigeria Could Hit 2.2 MMbpd Oil Output by End of June", in *Energy & Corporate Africa*, Available at www.energycorporateafrica.com Accessed 12/10/2023

² B. Kaushi Ranjan, "OPEC's Price-Making Power." In *Economic and Political Weekly*, Vol. 43, no. 46, 2008, Pp.18-21

³ Constitution of the federal Republic 1999 (amended), A publication of the Federal Ministry of Information and National Orientation, 2004.

⁴ Ibid.

⁵ I. N Neurus, 'The Politics of Oil Subsidy in Nigeria', *Africa: Revisita Trimstrale Di Studi e Documentazione Dell'Istituto Italiano per L'Africa e L'Oriente*. Vol. 51, no. 1, 1996, Pp. 80-94



education taxes, electricity, and foreign exchange among others.⁶

Subsidies in petroleum products were introduced in Nigeria in the 1970's as a response measure to the global oil prices shock in 1973, when the Arab members of the Organization of Petroleum Exporting Countries (OPEC) imposed an embargo against the countries supporting Israel during its war against Palestinians. In response to the situation, the OPEC member states imposed cuts on the supply of petroleum products to countries of which include countries as the Netherlands, Portugal, the Republic of South Africa, and the United States of America.⁷ So, the Nigerian government deems it fit to introduce petroleum subsidies to increase domestic consumption of the surplus petroleum products inwardly and to boost industrialization through investments in the manufacturing sector that utilizes the products from petroleum such as gasoline, wax, and other chemicals needed for onward production of material needs in the country. To this end, prices of petroleum products were pegged and tied to local currency (Naira), and by the year 1977, petroleum subsidy was institutionalized following the promulgation of the Price Control Act of 1977, which made it illegal for some petroleum products (including petrol) to be sold over and above the government approved and regulated price.⁸

To further enforce compliance with the statute, various agencies and subsidiaries were established under the Nigerian oil company; the Nigerian National Petroleum Corporation (NNPC) to ensure the enforcement. Subsidiaries such as the Department of Petroleum Resources (DPR), the Petroleum Products Pricing Regulatory Agency (PPPRA), and the

Petroleum Equalization Fund (PEF) were established. All these subsidiaries and their operations in enforcing the said laws regarding price control and regulations were captured in the NNPC Act of 1977⁹ to ensure the subsidies are widely enjoyed by Nigeria's teeming population and the realization of the objective of the introduction of the subsidy in petroleum products in general.

Although, the idea of subsidy is from all perspectives a noble one, however, the process to ensure payment of the subsidies was hijacked by some government workers in the government petroleum industries who connived with the marketers' and continued to inflate the figures in respect of the number of petroleum products being consumed daily within the state of Nigeria. This led the government of Nigeria to reconsider subsidies to cut costs. First, diesel (AGO) was removed from the list of subsidies offered by the state in 2003. Thirteen years later, the kerosene (DPK) subsidy was removed in 2016. However, the subsidy in premium motor spirit (PMS) continued on the belief that the most vulnerable population would be affected by the negative effects of the subsidy removal, such as inflation and difficulties in rendering services to the public through trade-related crafts that use PMS as a power source.¹⁰

Consequences of Petroleum Subsidy on the Nigerian Economy

Although the subsidy on PMS continued until recently in the month of May 2023, the philosophy underlying subsidy in PMS was to ease hardships on the populace in sectors such as transportation of people, conveyance of goods in the remote areas within the state, and through such, the possibility of triggering inflation and

⁶ *Fuel Subsidy in Nigeria- Issues, Challenges and the Way Forward*, PricewaterhouseCoopers Available at www.pwc.com/ng/en/publication/fuel-subsidy-in-nigeria-issues-challenges-and-the-way-forward.htm Accessed 23/10/2023

⁷ 'Oil Embargo 1972-1974', Office of the Historian, Foreign Service Institute, United States Department of State Available at www.history.state.gov/milestones/196-1976/oil-embargo Accessed 19/0/2023

⁸ *Fuel Subsidy in Nigeria- Issues, Challenges and the Way Forward*, PricewaterhouseCoopers Available at www.pwc.com Accessed 20/10/2023

⁹ U. A. Kyuka, "Operational Institutions." *Nigerian Oil and Gas Industry Laws: Policies and Institutions*, Malthouse Press, 2017, Pp.11-52

¹⁰ www.pwc.com/ng



deepening of poverty could be curtailed.¹¹As such, subsidy in PMS continues, and is calculated by taking the subsidy per litre; and multiplying it by the quantity of the product consumed within the country for a period of one year.

Throughout the period of subsidy, the amount being paid as subsidy keeps on increasing to the extent that outrageous amounts were owed by the state as amount of PMS consumed daily. According to reports, padding of the PMS daily consumption became the norm in the petroleum regulatory authorities such as the DPR and PPMC. It is worth noting that, even Nigeria's national statistics body; the National Bureau of Statistics (NBS) does not know the actual amount consumed in Nigeria daily. Every agency of the state has its own estimated daily PMS national consumption figures, which continue to increase over and over each year. For instance; in the year 2002, the number of liters consumed in Nigeria throughout the year was 21.45 million liters. In 2011, it rose to 29.3 million liters.¹²

In an attempt to ascertain why the consumption, continues to increase, it was found out that about 27.6 million liters of PMS were being smuggled daily to neighbouring countries such as Niger Republic, Republic of Benin, Mali, Chad, and Cameroon, just to mention but a few. Apart from the aforementioned irregular figure, there were false claims by different companies regarding subsidies on undelivered fuel.¹³ This trend continued over the years to the extent that in the year 2022, the consumption rate was said to be around 65.7 million liters; whereas, the Nigerian National Petroleum Company Limited-NNPCL

(formerly NNPC) gave the data on PMS consumption rate in Nigeria to be about 68 million liters from January to August in 2022.¹⁴

It is worth noting that, such subsidies come at great costs as spending on other development objectives is lower, and distribution of resources to the other tiers of government continues to shrink, as the huge amounts spent on subsidy go to the better-off Nigerians and their cohorts in the name of corruption malleably referred to as 'kickback'. This is evident when we look at the amount of money spent from the year 2006-2018, which gulf ten trillion Naira,¹⁵ and another 4.39 trillion Naira in 2022.¹⁶

Apart from the subsidy itself, efforts have been made in the past to rehabilitate the four existing refineries in Nigeria, to cut down the expenses of subsidy on petroleum; this swept a whopping sum of 11 trillion Naira from 2010 to 2022, and up to today, none of the refineries are operating on full-scale capacity; hence, importation of the PMS remains the only option to satisfy Nigeria's PMS needs. This had inadvertently continued to devalue the local currency (Naira) against the pegged currency (US Dollar), which is used in the transactions of PMS in the global markets to the extent that the foreign exchange rate to one US dollar is almost equal to the highest note of Nigeria's money (1 US Dollar= 925 Naira as at 25th August 20023 at the Bureau Du Change). This constituted a trade deficit in the nation's economy and made it a net importer of its needs despite having substantial crude oil reserves of about 37.1 billion barrels spread across the country.¹⁷

¹¹ J. Adeoti, et. al., *An Overview of the Fule Subsidy Regime in Nigeria :Compensation Mechanism for Fuel Subsidy in Nigeria*; a Report of the International Institute for Sustainable Development (IISD), 2016, Pp. 4-13

¹² E. Agbon, 'Fuel Subsidy and Daily Petrol Consumption Rate in Nigeria', *The Guardian*, 4 July, 2022

¹³ *Ibid*

¹⁴ *Ibid*

¹⁵ B. S Omotosho, Oil Price Shocks, Fuel Subsidies and Macroeconomic (In)stability in Nigeria, in *CBN Journal of Applied Statistics vol.10 no.2*, December 20129, P .4

¹⁶ C. Eboh, 'Nigeria's NNPC Spent \$10 billion on Fuel Subsidy in 2022', [reuters.com/business/energy/nigerias-nnpc-spent-10-billion-fuel-subsidy-2022-2023-01-20/](https://www.reuters.com/business/energy/nigerias-nnpc-spent-10-billion-fuel-subsidy-2022-2023-01-20/) Accessed 8/09/2023

¹⁷ 'Crude Grades,' Mckinsey Energy Insights, Accessed February 7, 2023 as was quoted in www.eia.gov/international/content/analysis/countires_long/Nigeria/



Also, the petroleum subsidy in Nigeria is among the factors that led to the depleting of the nation's foreign reserves and over borrowing, which consequently led to debt over hanging. According to the central bank of Nigeria reports, Nigeria's gross external reserve have continued to decline, dropping by 1.1 billion to \$38.5 billion in May 2022.¹⁸ The depletion was caused perhaps as a result of combination of various effects which amongst are the low crude oil production below the OPEC quota, and the rising cost of petrol subsidy by incurring more cost to import fuel products than we earn from exporting the crude oil itself.¹⁹ This imbalance in the economy of Nigeria as a country with a mono-cultural economy tied to crude oil exposes it to price shocks and fluctuations, and thus, placed its economy in a fragile state, and always suffered from budget deficits over the preceding years. To avert the existing situation in Nigeria, the government was advised to urgently reverse the trend, by addressing the challenges to the lingering petrol subsidy quagmire.²⁰

Socially, at the microeconomic level, Nigerians are to be the sole beneficiaries of the petrol subsidy. But the subsidy went on to benefit the rich economic classes and their cohorts, and to some extent, the urban poor who rely heavily on PMS fueled transportation means. This was so because the local bourgeoisie class continued to exploit the opportunity to sell imported Nigerian PMS across the borders of neighbouring countries at higher prices. This corrupt practice by the petroleum business class, allowed them to engage in what is called *round-tripping* by importing more refined PMS than they deliver to Nigerian consumers, then smuggling the residual supplies to neighbouring countries' markets and selling at more market-determined prices.²¹ According to a security survey on the amount of PMS smuggled out of Nigeria, it reported that about 788 trucks/tankers each with

33,000 liters capacity are being smuggled daily to neighbouring countries;²² while at various intervals, Nigerians continue to face long days of queues and hardships in filling stations due to the effects of shortages of the product that has been subsidized for them.

Moreover, the elimination of subsidy brought challenges which led to the surge of petroleum prices from 150% to 200%,²³ of which the price of PMS rose from 500 to 615 Naira per liter across the entire country. Consequently, there has been a rise in charges for services related to small and medium-sized enterprises services (SMEs). These enterprises that are affected include transportation, iron welding and fabrication, barbing, and other trade-related occupations. For instance, taxi cab drop services within the Federal Capital Territory (FCT) Abuja before the subsidy removal was not more than 900 Naira at most; but, nowadays, it has risen to about 2000 Naira. More so, basic consumer goods and needs such as food and other necessities such as laundry soap, detergent, and toothpaste just to mention a few, are also affected by price increases as a result of the high cost of PMS due to the elimination of subsidies in May 2023.

Resilient Measures Embarked Upon as a Result of Petroleum Subsidy Removal in Nigeria

Resilience has been the case in most social settings, whenever there is hardship, adversity, and frustrations; the individual and society at large are capable of survival, thriving, and recovery.²⁴ This ability to bounce back from adversity, frustrations, and uncertainties by the teeming Nigerian populace as a result of the petroleum subsidy removal had propelled the citizens' ability to go beyond their original level of

¹⁸ Hope Moses-Ashike., 'Why Nigeria's External Reserves Continue to Shrink', *Business Day*, June 10, 2022

¹⁹ . Ibid.

²⁰ . Ibid.

²¹ 'Removing Nigeria's PMS Fuel Subsidies: We Can't Eat Our Cake & Still Have It', KPMG Report, June 2023

Available at www.home.kpmg/socialmedia or www.home.kpmg/ng Accessed 27/08/2023

²² E. Agbon...*Op. Cit*

²³ A. Odewale, Consequences of Fuel Subsidy Removal on Nigeria's Balance of Trade, *Vanguard*, 28 June, 2023

²⁴ J. Ladesma, *Conceptual Framework and Research Models on Resilience in Leadership*, SAGE Journal, .4, No.3, 2014



functioning by opting for and devising proactive measures in order to function properly.²⁵

One of the resilient measures embarked upon by the Nigerians as a result of petroleum subsidy removal is the development of a positive mindset and optimism to survive; and also prioritizing of needs. Many psychological experiments and studies have revealed that having a positive mentality is inherently linked to better business²⁶ and existential success. And based on the findings about the subsidy removal in Nigeria, many people have equipped themselves with the believe in the possibility of surviving despite the biting of the economy which causes prices to soar by concentrating only on the necessities which are categorized as needs apart from the wants of which are mere luxuries. Almost all households' breadwinners had cut down their expenses by prioritizing necessities only. This has been the case by eliminating optional spending on products like outings and eating in restaurants instead of at home, weekend vacations, and tourism among others. All the unnecessary expenses were suspended by families in order not to become financially bankrupt as a result of the fuel removal subsidy. This measure had been embraced by the by majority if Nigerians as it was also the advice from the International Monetary Fund (IMF) which emphasizes the significance of reevaluating and prioritizing expenses during times of economic stress.²⁷ This piece of advice has been interpreted in different aspects which include financial discipline by sticking to a budget, increasing another source of income, and embracing frugal habits of spending among other self-financial skills in times of hardships.

On another note, the soaring prices of PMS had created an enabling market by utilizing low and non hydrocarbon clean energy sources such as electric cars (EV's), bio-fuels (organic extracts such as ethanol

from sugarcane bark, Okra and maize), and solar powered technology alternatives. Thus, for instance, the utilization of compressed natural gas (CNG) by NIPCO Company in Nigeria which had converted 5600 petrol engines to CNG engines.²⁸ This had undoubtedly created alternative fuel sources for SME's, and at the same time continued to create millions of jobs through the ever-expanding conversion technology, which in the end would ensure proper utilization of about 208.83 trillion cubic feet (TCF)²⁹ gas reserves in Nigeria instead of flaring it indiscriminately.

Conclusion

The philosophy underlying the subsidy removal in Nigeria, such as the provision of infrastructure, undertaking of capital projects, and increase in welfare and social services form the basis of the idea of the subsidy removal; the necessary structures to support the people against the negative effects of the subsidy removal have not been studied and implemented before the removal of the subsidy to mitigate its multiple effects. Instead, the incumbent president was overwhelmed by the amount his government could have saved from the nonpayment of the subsidy to PMS importers and marketers, which continued to create untold hardships for many Nigerians as the cost of living continued to soar, transportation costs tripled, and above all rising cost of units of products from the manufacturing sectors in addition to depleting the nation's foreign reserve and the depreciation of the value of the local currency (Naira).

²⁵ V. E O'leary, 'Resilience and Thriving in Response to Challenges: An Opportunity for a Paradigm Shift in Women's Health', in *Women's Health: Research on Gender Behavior, and Policy*, v.12, no. 2, Pp. 121142

²⁶ A. Sola, Financial Resilience: Strategies to Thrive Amidst Rising Costs, *Business Day*, June 19, 2023

²⁷ Ibid.

²⁸ O. Abayomi, "Consequences of Fuel Subsidy Removal on Nigeria's Balance of Trade", *Vanguard*, June 28, 2023

²⁹ M. Azeez, "Nigeria's Oil Reserves now Stands at 7billion-NUPRC", *Business Day*, April 25, 2023