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## Subsidy Is Gone - The President Elect Declares It's Effects On the General Masses In Nigeria

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### ABSTRACT

Subsidies are direct or indirect payments made by the government to businesses or individuals to regulate the price of a product price. The president elect declared the removal of fuel subsidy maintaining that prices paid by Nigerians to use petroleum products are less than what they should pay predominantly when benchmarked against the prices in the global market and promises to provide obligatory momentum for the Nigerian financial system to find its cadence. Technically, this declaration is taking a serious crush on poorer households who struggle to eat three square-meals before the subsidy removal. Consequently, enabling environment should be created by the government to stimulate private investor's for the purpose of improving the local refinement capacity to meet the ever increasing local require of petroleum products and indeed for exportation purpose. Government should budget more funds towards improving both education and the health care delivery system in Nigeria.

**Keywords:** Fuel subsidy, president elect, masses, corruption, refinery, inauguration, infrastructure, education etc.

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#### **Aims Research Journal Reference Format:**

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### INTRODUCTION

Subsidy is gone is the only message reiterating in the ears of many Nigerians after the inaugural ceremony of the president elect in Eagle Square, Abuja. President Bola Tinubu categorically stated on May 29th, 2023 during his inaugural speech that his administration will not subsidize on petroleum products. However, this decision had long been in existence before the inaugural programme because there was no provision for subsidy in the national budget from June 2023 during the administration of President Muhammadu Buhari, consequently, this decision remains the president declares. However, the president elect maintained that the funds for subsidies will be diverted to public infrastructure, education, health care and jobs which are the major things the masses needs to survive in the crashing economy.

The former minister of works and housing; Babatunde Fashola had made this known in an interview before the inaugural meeting that the Muhammadu Buhari administration didn't make provisions for petrol subsidy in the year's budget beyond June. But many Nigerian didn't count on this because they believe it has always been a contentious issue in Nigeria.

Without mixing words, the Nigerian government has, for decades being subsidizing fuel and fixed retail prices of petroleum products. The payment has, however, threatened the nation's fiscal stands and affected the government's ability to fund developmental projects across the nation. All efforts by the federal government proved abortive in November 2021 when the Federal government announced its plan to remove the fuel subsidy and replace it with a monthly pay of ₦5,000 transport grant for poor Nigerians (Premium Times, 2023).

Previous efforts to end the petrol subsidy regime sparked protests on the streets and strike action from organised labour. The Nigeria Labour Congress (NLC) had warned against the removal of subsidy on petrol, citing galloping inflation and the hardship Nigerians are currently grappling with. The NLC called for a repair of the nation's dilapidated refineries and tackling corruption in the petroleum sector before calling time on the petrol subsidy regime (TheCable, 2023).

### **1.1 Objectives of Study**

Without mixing words, petroleum (oil) product plays a giant role in Nigeria's socio-economic, education, foreign and defense policies. Oil resources are prominent in the nation's power equation. The seat oil product occupies in Nigerian system makes many corrupt leaders sees it as an avenue to exploit the nation's wealth. Subsidy is gone as declared by the president elect was purposely done to curtail corruption in Nigeria system. Consequently, this paper seeks to authenticate the crush the subsidy removal on fuel is having on Nigerian masses.

## **2. AN OVERVIEW OF FUEL SUBSIDY**

Subsidies are done to regulate the price of commodities in the market. They are direct or indirect payments made by the government to businesses or individuals. Direct subsidies involve cash payments from the government to the beneficiary while indirect subsidies is when industries or households benefit from definite economic benefits from government policies such as tax breaks. Subsidies are generally implemented to encourage consumption and production. For instance, if the government makes direct payments to yam farmers, this could increase yam production by reducing the production costs accruing to the farmers (The Nigerian Summit Economic Growth, 2023).

### **2.1 Benefits of Fuel Subsidy**

#### **Welfare sustenance and affordability**

the importance of fuel in the lives of Nigerians cannot be overemphasized. Fuel subsidy makes the product inexpensive and available, as well as maintains the welfare of the people in the face of higher crude oil prices

**Lower and stabilize prices**

Due to the unpredictable nature of crude oil prices, which are the major raw material in the production of petrol, fuel subsidy keeps the fuel price stable and lower for end users.

**Hold up and Sustain Industries**

Fuel constitutes a major input for many businesses in Nigeria due to inadequate power supply and deficiency in transportation and logistics. Therefore, fuel subsidy sustains many businesses across sectors.

**Encourage economic growth**

With improved access and affordability, fuel subsidy can help inspire economic activities and growth.

**3. FUEL SUBSIDY REEMERGENCE AND ITS IMPACTS ON NIGERIANS**

Record shows that, since January 2021, the Nigerian government has reverted back to providing implicit fuel subsidies. In June 2020, the Nigerian Federal Government (FGN) proclaimed that it removed the fuel price cap. But, it didn't follow through with introducing a market-based costing method and, as oil prices rose, substantial financial costs erects from implied subsidies resulting from the disparity between upper prices of imported fuel products and fixed pump prices. As there is no stipulation for subsidy payments in the 2021 budget, such costs are being borne by the national oil company (NNPC), which is deducted from the oil revenues accruing to the Federation Account (International Monetary Fund (IMF) 2022).

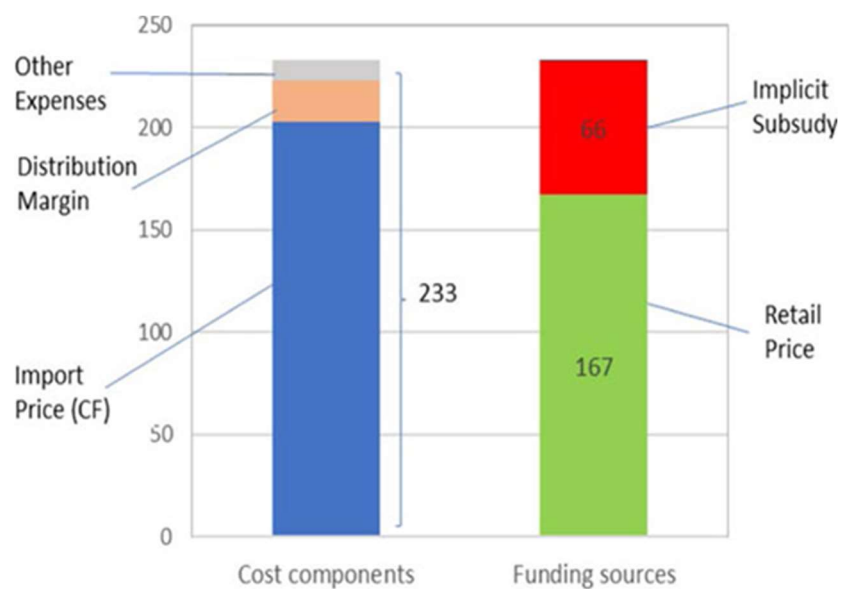
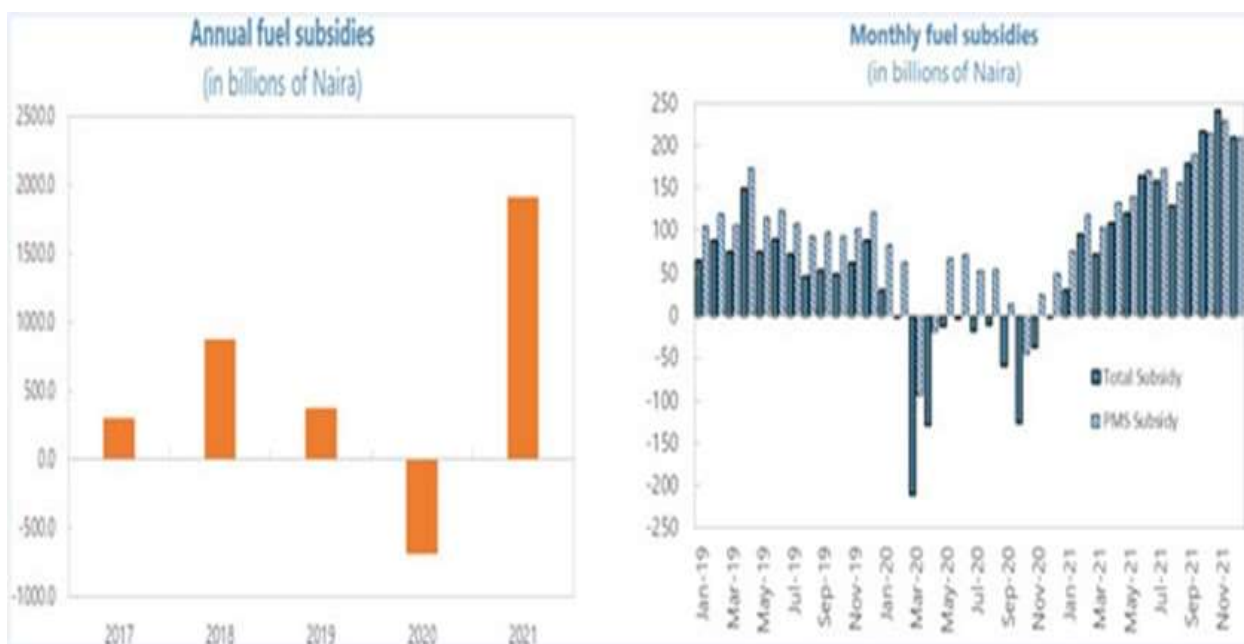


Figure 1

**Implicit fuel subsidies are estimated at NGN 1,912 billion for 2021.** It can be deduced from Figure 1 that, the price (NGN 233) of delivering a liter of Premium Motor Spirit (PMS) in 2021 has exceeded the regulatory vend price (NGN 167) by approximately 40 percent. The gap (NGN 66) is estimated as a substitute for implicit fuel subsidy per liter of PMS. At this level of cost under-recovery and with the postulation for utilization of about 54 million liters per day in Nigeria, the yearly implicit subsidy price is estimated at NGN 1,912 billion in 2021.



**Figure 2**

The majority of the subsidies are for PMS, while fuel oil price is also subsidized. There is no subsidy for kerosene whereas the PMS subsidy (used more by richer households) is very large, implying a “regressive” pricing strategy (IMF, 2022).

**Implicit fuel subsidies have a significant negative impact on Nigeria’s fiscal position, which is estimated to increase the overall fiscal deficit by around 1 percentage point of GDP in 2021.** Despite much higher oil prices, the general government fiscal deficit is projected to be significantly worse at 6.3 percent of GDP, compared to 4.7 percent of GDP in the 2020. Over the medium-term, devoid of bold reorganizations for tax management and tax guiding principle, financial deficits are projected to continue elevated above pre-crisis levels (4.3 percent of GDP during 2014–19). Even though we presume that contained fuel subsidies exist only until mid-2022, as stipulated in the Petroleum Industry Act (PIA) and assumed in the draft 2022 budget, fiscal vulnerabilities linger elevated with municipal debt endlessly increasing from 35 percent of GDP in 2020 to over 42 percent in 2026.

With limited IFI funding, financial financing for large inherent subsidy costs is likely to depend heavily on domestic sources, including overdrafts from the Central Bank of Nigeria (CBN). Thus, the recent reemergence of contained fuel subsidies has levied a substantial weight on the Nigeria's fiscal situation that could have been spent more effectively on pro-poor interventions (IMF, 2022).

**The analysis shows that removing fuel subsidies would reduce income inequality.** A fuel price augment to cost-recovery level would reduce households' procuring power, which calls for a distributional scrutiny of the bang by income groups, especially for pitiable households. Wealthier households have a propensity to waste a larger share of their income on PMS than struggling households, while the share of kerosene outlay is lower in richer households (above 80<sup>th</sup> income percentile).

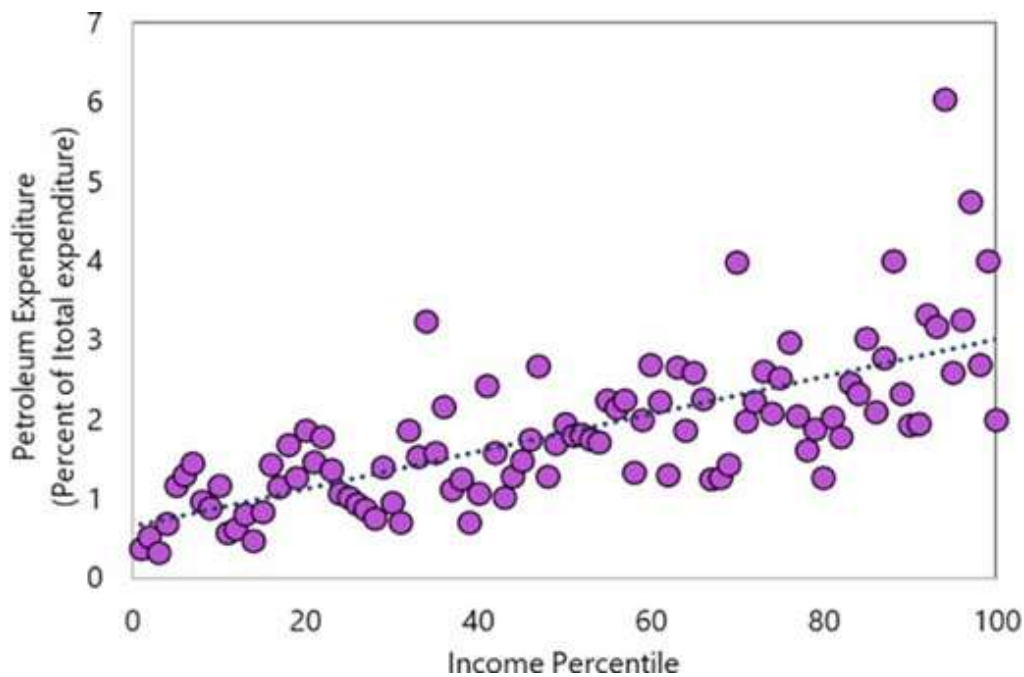


Figure 3



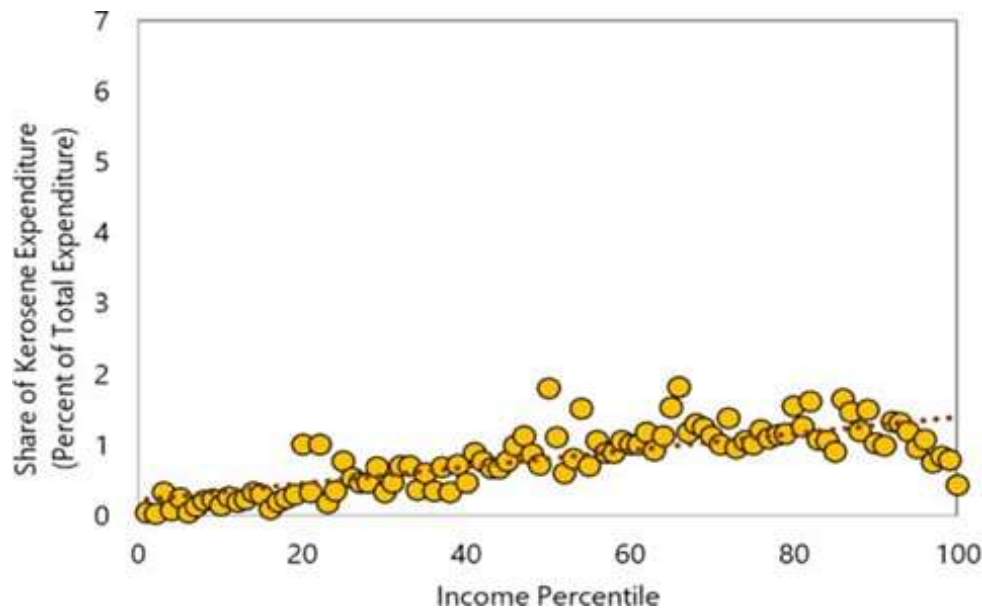


Figure 4

Judging from figure 4 and 5, it show that; the price of kerosene—a cooking/heating fuel used mainly by poorer households—is higher than the subsidized price of PMS, which implies that the existing implicit fuel (PMS) subsidy is regressive. Experimental studies have also supported that fuel subsidy is undemocratic, finding that it is an extremely costly approach to helping the poor, with the top income quintile typically capturing six times more in subsidies than the bottom (Arze del Granado, et al., 2012).

Not surprisingly, the removal of fuel subsidies is therefore progressive. According to IMF (2019), they posits that the estimated the distributional impact of fuel price increase in Nigeria, a 40 percent increase in PMS price (recovery of current costs) reduces the disposable income of rich households and decreases income inequality by  $\frac{1}{4}$  point (IMF, 2022).

**There is however adverse impact on the poor, which can be mitigated with a fraction of the fiscal resources currently devoted to fuel subsidies.** IMF (2019) shows that taking away fuel subsidies would raise the headcount poverty rate by 1.2 percentage point and the poverty gap by 0.4 percentage point.  
**The Resolution of the President Elect after the Removal of Fuel Subsidy**

President Bola Tinubu maintained that; Nigeria has saved over 1 trillion naira (\$1.32 billion) in just over two months by scrapping a popular but costly subsidy on petrol and moved to unify its multiple exchange rates. Tinubu is under pressure as prices soar following the country's boldest reforms in decades, which labour unions say have hurt the poor (Onuah, 2023).

A meeting between unions and government to try to avert a planned strike ended without an agreement. In a television broadcast, President Tinubu defended his decision to scrap the petrol subsidy, which he said benefited a few elites and that the reforms would help boost the economy. The president said he was aware of the hardship caused by removing the subsidy and was "monitoring the effects of the exchange rate and inflation on gasoline prices," adding that he would intervene if and when necessary.

#### **4. CONCLUSION**

The political policies surrounding fuel subsidy removal in Nigeria is questionable and it makes the country absurdity. History has it that, successive administration appears obdurate in the pursuit to remove fuel subsidy. The people are uniformly resolved in its antagonism to the removal of subsidy. Nigeria is up for the jagged times ahead, the time has come for the ultimate fortitude whether those in government coerce their power from the people or whether they are autonomous and be in possession of their stay in power to other entities other than the people.

The removal of subsidy, apparently to halt the activities of fraudulent oil marketers/smugglers and make money available for infrastructural growth appears to have degenerated the economic conditions of Nigerians, predominantly the poor. With the removal of fuel subsidy comes haphazard and exponential surge in fuel pump prices along with increases in the cost of food, rent and transport and so on.

#### **5. RECOMMENDATIONS**

Creation of enabling environment should be created by the government to stimulate private investor's for the purpose of improving the local refinement capacity to meet the ever increasing local require of petroleum products and indeed for exportation purpose. Government should budget more funds towards improving both education and the health care delivery system in Nigeria.

The government should maintain existing refineries and build more. Most importantly, the fight against corruption should be strengthened and the institution of a regulatory structure to protect citizens as necessary measures to increased capacity consumption on the existing refineries to stem the tide of petroleum products importation to advance the poor state Nigeria's economy and society.

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