



**FUEL SUBSIDY REMOVAL AND NIGERIA'S ECONOMIC RESILIENCE:
IMPLICATIONS FOR GROWTH, INFLATION, AND CONSUMER WELFARE IN A POST-
SUBSIDY ERA**

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Abstract

This study examines the relationship between fuel subsidy removal and Nigeria's economy, with a focus on its implications for economic growth, inflation, and consumer purchasing power. Specifically, the study analyzes the effects of policy changes resulting from fuel subsidy removal on Nigeria's economic growth rate and evaluates how the reallocation of government expenditure influences inflation and consumers' ability to purchase essential goods and services. Adopting a descriptive survey research design, primary data were collected from 300 respondents, including officials from economic institutions, fuel marketers, and civil society representatives, selected through stratified random sampling. A structured questionnaire designed with a 5-point Likert scale was employed to capture relevant economic perceptions and experiences. Validity was through expert review, while reliability was confirmed via a pilot study, yielding a Cronbach's Alpha coefficient of 0.83. Data were analyzed using descriptive statistics and multiple regression analysis via SPSS version 26. Findings revealed that while fuel subsidy removal contributes positively to fiscal stability and macroeconomic restructuring, it also introduces short-term inflationary pressures that reduce consumer purchasing power. The study concludes that subsidy reform policies must be accompanied by strategic reinvestment in infrastructure and social protection programs to mitigate socioeconomic hardships. It recommends transparent reallocation of savings to critical sectors and diversification of the economy to enhance resilience and inclusive growth.

Keywords: Consumer Purchasing Power, Economic Growth, Fuel Subsidy Removal, Inflation, Nigerian Economy.

Introduction

Globally, fuel subsidy reform has emerged as a critical policy discourse among both developed and developing nations seeking to enhance fiscal sustainability, environmental

responsibility, and economic efficiency. According to the International Monetary Fund (IMF, 2021), fuel subsidies cost the global economy over \$5.9 trillion annually, with significant portions spent in emerging economies. These subsidies often distort energy markets, incentivize overconsumption, and divert public resources from critical development sectors such as health, education, and infrastructure (World Bank, 2022). Countries like Indonesia, Egypt, and Iran have undertaken varying degrees of subsidy reform, often facing political resistance but gradually achieving improved public finance and energy efficiency outcomes when accompanied by effective social safety nets (Coady et al., 2021).

In the African context, fuel subsidies have similarly posed fiscal and structural challenges. Nations such as Ghana and Angola have made efforts to reduce or eliminate these subsidies, recognizing their adverse impacts on budget deficits and resource allocation (Adegbite & Onyekwena, 2020). However, subsidy removal without adequate compensatory measures has frequently triggered inflation, protests, and a decline in household welfare, especially among low- and middle-income earners (Omosebi & Shittu, 2023).

In Nigeria, the debate over fuel subsidy removal has spanned several decades, with the government traditionally subsidizing petroleum products to mitigate the effects of high energy costs on its citizens. Despite these intentions, the cost of maintaining fuel subsidies has become unsustainable, with the Nigerian National Petroleum Company Limited (NNPCL) reporting over ₦4 trillion spent on subsidies in 2022 alone (NBS, 2023). Fuel subsidies have contributed to growing fiscal deficits, limited capital investment, encouraged smuggling, and created pricing distortions in the downstream petroleum sector (Ibeabuchi, 2021).

Recent reforms, particularly those initiated in 2023 under President Bola Ahmed Tinubu's administration, have reignited both public support and opposition. Proponents argue that eliminating fuel subsidies could reallocate government revenue towards infrastructure, education, healthcare, and targeted poverty alleviation programs, thereby enhancing long-term economic growth (Olayemi, 2022). Critics, however, emphasize the immediate inflationary pressures, increased transportation costs, and a decline in real income for vulnerable populations, especially in the absence of visible welfare programs to cushion the effects (Akinyemi & Ogunyemi, 2024).

Understanding the relationship between fuel subsidy removal and Nigeria's economic performance is thus imperative for evidence-based policymaking. As the country seeks to diversify its economy beyond oil and implement structural reforms, exploring the fiscal, inflationary, and growth-related consequences of subsidy elimination becomes central to achieving inclusive and sustainable development.

Nigeria has struggled with the sustainability of fuel subsidies, often diverting resources away from critical sectors such as education, healthcare, and infrastructure development (Obi, 2022).

Despite past reforms, fuel subsidy removal continues to generate controversy due to its socio-economic implications. The primary challenge lies in assessing whether the removal of subsidies leads to long-term economic growth or deepens economic hardship. Existing literature primarily focuses on short-term inflationary effects, leaving a gap in understanding the long-term relationship between fuel subsidy removal and macroeconomic indicators like Gross Domestic Product (GDP), employment rates, and government expenditure efficiency (Eze & Uchenna, 2023). This study seeks to bridge this gap by examining the broader economic consequences of fuel subsidy removal in Nigeria.

The main objective of this study is to examine Fuel Subsidy Removal and Nigeria's Economic Resilience: Implications for Growth, Inflation, and Consumer Welfare in a Post-Subsidy Era. The specific objective includes:

- i. To analyze the policy changes effects of fuel subsidy removal on Nigeria's economic growth rate
- ii. To evaluate the government expenditure on fuel subsidy removal on inflation and consumer purchasing power

Conceptual Framework

Fuel Subsidy Removal

Fuel subsidy refers to a governmental policy aimed at reducing the price consumers pay for fuel, typically by offering financial support to petroleum marketers. In Nigeria, this policy has historically been employed to mitigate the impact of fluctuating global oil prices on domestic energy costs (Adeniran et al., 2021). However, the removal of this subsidy signifies a policy reversal where the government discontinues or reduces its financial support, allowing fuel prices to be determined by market forces. This transition often elicits widespread socio-economic reactions due to its direct influence on transportation, goods, and services.

The dimensions of fuel subsidy removal include the fiscal impact on government expenditure, effects on petroleum product pricing, and implications for social equity. The government's rationale often centers on reallocating funds from subsidy payments to capital projects. However, this is countered by public concern over increased cost of living and poverty levels (Obi, 2022). Thus, understanding these dimensions is crucial to evaluating the broader economic implications of subsidy removal.

Moreover, the removal policy also intersects with governance and public trust. When transparency and accountability in the use of saved revenues are lacking, public opposition intensifies. The policy is therefore as much a political decision as it is an economic one, requiring adequate safety nets, stakeholder engagement, and communication strategies to cushion its adverse effects.

Economic Growth

Economic growth refers to the increase in the production of goods and services in an economy over a period, commonly measured by Gross Domestic Product (GDP). It signifies improvements in national income, employment rates, industrial productivity, and overall economic welfare. In Nigeria, achieving sustainable economic growth remains a core policy objective amidst diverse structural challenges (Eze & Uchenna, 2023).

The dimensions of economic growth relevant to this study include GDP growth rate, employment generation, government capital expenditure, and inflation control. These indicators provide a framework for analyzing the real impact of policy decisions like fuel subsidy removal. GDP growth reflects overall economic performance, while employment rates indicate the capacity of the economy to absorb labor. Government expenditure showcases fiscal priorities, and inflation directly affects the cost of living and consumer purchasing power.

Economic growth is not merely about numbers but about structural transformations that improve the lives of citizens. Therefore, the relationship between fuel subsidy removal and economic growth must be contextualized within Nigeria's broader economic policies, sectoral linkages, and social dynamics. Only then can the benefits and costs of subsidy reforms be accurately evaluated.

Government Expenditure and Inflation

Government expenditure refers to the total amount spent by the government on consumption, investment, and transfer payments. It plays a critical role in determining inflationary trends, especially in the aftermath of subsidy removal. When subsidies are removed, the redirection of funds to infrastructure or social investment can either mitigate or exacerbate inflation depending on how effectively the funds are managed (Okonkwo & Adewale, 2022).

The dimensions of government expenditure in the context of fuel subsidy removal include public investment, recurrent spending, inflationary control mechanisms, and social welfare programs. These aspects determine whether subsidy savings translate into tangible benefits for the economy or trigger macroeconomic instability. Uncontrolled expenditure can lead to inflation, weakening consumer purchasing power and increasing hardship for low-income groups.

Inflation, as an economic phenomenon, reflects the rate at which general price levels rise. It can be cost-push (due to rising production costs) or demand-pull (due to increased demand). Fuel subsidy removal often triggers cost-push inflation, especially when transportation and energy costs spike. Thus, inflation management becomes a central concern in evaluating the post-subsidy removal economic environment.

Empirical Framework

Ibeabuchi (2021), in a study *The Macroeconomic Implications of Fuel Subsidy Removal in Nigeria*, a quantitative research design using econometric time series analysis. The study utilized secondary data covering the period from 1990 to 2020, sourced from the Central Bank of Nigeria (CBN), the National Bureau of Statistics (NBS), and the Nigerian National Petroleum Corporation (NNPC). As such, there was no primary sampling since the analysis was based solely on macroeconomic indicators. The main analytical tools used were the Vector Error Correction Model (VECM) and Granger Causality Tests. The study concluded that the removal of fuel subsidy significantly reduces fiscal deficits and promotes a more efficient allocation of government resources. It further emphasized that subsidy elimination corrects price distortions in the petroleum sector, enhances market transparency, and allows the government to redirect public funds toward critical sectors such as education, healthcare, and infrastructure. These redirected investments, in turn, support economic diversification and long-term sustainable growth in non-oil sectors.

Olayemi (2022) conducted a study on *Fuel Subsidy Reform and Household Welfare in Nigeria: An Empirical Analysis*. This research adopted a mixed-method approach, combining quantitative household survey data with qualitative interviews. The quantitative component involved a survey of 1,000 households selected through stratified random sampling across four major cities: Lagos, Abuja, Kano, and Port Harcourt. The qualitative component featured 40 in-depth interviews with a diverse group of stakeholders, including policy experts, labor union representatives, and small business owners. For the analysis, the study utilized Ordinary Least Squares (OLS) regression for the quantitative data, and applied thematic coding and content analysis for the qualitative responses. The findings revealed that while subsidy reform may have long-term economic benefits, its immediate impact is largely negative for the average Nigerian household. Specifically, the removal of the fuel subsidy has contributed to rising inflation, especially in transportation and food prices, which disproportionately affect low- and middle-income households. The study also highlighted that the delay or failure of the government to effectively channel subsidy savings into social safety nets, public transportation systems, and other compensatory mechanisms has worsened public dissatisfaction and increased the cost of living.

Akinyemi and Olayemi (2021) examined the impact of fuel subsidy removal on Nigeria's economic growth using a sample of 120 policymakers and economic analysts. Data were analyzed using multiple regression analysis. The study found that subsidy removal has a significant positive effect on GDP in the long run but induces short-term inflation.

Musa and Ibrahim (2022) focused on the socio-economic effects of fuel subsidy removal in Kaduna State, using a sample of 200 households. A structured questionnaire and descriptive statistics

were used. The study found that fuel subsidy removal increased transportation costs and reduced household disposable income, affecting living standards.

Eze and Uchenna (2023) used time-series data from 2000 to 2022 to examine the long-term relationship between fuel subsidy removal and macroeconomic indicators. Employing Vector AutoRegression (VAR) analysis, they concluded that while fuel subsidy removal improved government fiscal balance, its effect on GDP was conditional on reinvestment efficiency.

Obi (2022) conducted a qualitative study involving interviews with 25 government officials and oil marketers. Thematic content analysis revealed that lack of transparency and public trust hinders the success of subsidy removal policies, despite their economic justification.

Okonkwo and Adewale (2022) studied the inflationary impact of fuel subsidy removal using inflation data from 1999 to 2021. They applied ARDL (Autoregressive Distributed Lag) models and found that fuel prices significantly influence headline inflation in Nigeria.

The reviewed studies largely agree on the fiscal advantages of fuel subsidy removal but diverge on its socio-economic consequences (Eze and Uchenna, 2023, Eze and Uchenna, 2023, Akinyemi and Olayemi, 2021). Most focus either on short-term inflation or long-term GDP impact without integrating both macro and microeconomic outcomes (Musa and Ibrahim, 2022, Eze and Uchenna, 2023, Akinyemi and Olayemi, 2021). Few studies assess the reinvestment efficiency of subsidy savings or explore consumer purchasing power in depth. While models of reviewed studies use long-term macroeconomic outcomes effectively, they do not sufficiently address the short-term distributional impacts, such as the immediate economic hardships faced by households (Ibeabuchi, 2021). Additionally, in the study of Ibeabuchi (2021), the exclusive reliance on secondary data limits the ability to assess the socioeconomic impacts at the grassroots level. The study also appears to assume a smooth and effective transition from subsidy savings to productive investments, without factoring in the realities of political and institutional inefficiencies that may hinder the reallocation process. Some empirical studies such as Olayemi (2022) focus on urban centers, which may limit the generalizability of the results to rural populations, where the impact of subsidy removal might differ. Moreover, the timeframe for evaluating the post-reform effects might be too short to capture the potential long-term economic benefits of the reform. While the study gives voice to the social realities of the reform, it may underrepresent the broader economic gains, such as improved fiscal discipline or increased investor confidence, due to its focus on immediate household welfare outcomes.

This study bridges these gaps by holistically analyzing the effects of fuel subsidy removal on economic growth, inflation, and consumer purchasing power using recent data and a multi-dimensional approach. By integrating economic indicators with public perception, this study aims to provide comprehensive insights for policy formulation.

Theoretical Framework

This study is anchored on the Public Choice Theory developed by James M. Buchanan and Gordon Tullock in 1962. The theory applies economic principles to political science, suggesting that policy decisions result from the self-interested behavior of political actors rather than from the pursuit of public welfare. Policymakers are rational and self-interested, seeking to maximize personal or political gains. Government actions, including subsidies, are often influenced by interest groups and electoral incentives. Efficiency in public resource allocation is often compromised by rent-seeking behaviors and bureaucratic inefficiencies.

Critics argue that Public Choice Theory is overly cynical, disregarding altruistic motives of public officials and ignoring institutional checks and balances. It also fails to fully capture the complex socio-economic motivations behind policy decisions. The theory provides a lens to analyze the political economy behind fuel subsidy removal. It helps explain why subsidy reforms, though economically rational, are politically contentious. It underscores the need for transparent and accountable governance in the implementation of subsidy removal policies.

Research Methodology

Research Design

This study adopts a descriptive survey research design. The survey design is appropriate because it enables the researcher to collect data from a large number of respondents at a specific point in time, thereby describing existing conditions and relationships between variables such as fuel subsidy removal, economic growth, inflation, and consumer purchasing power. The design allows for quantitative analysis to determine the extent to which changes in government policy, particularly the removal of fuel subsidies, affect macroeconomic indicators in Nigeria.

Population of the Study

The population of the study consists of staff members of key government economic agencies such as the Ministry of Finance, Ministry of Petroleum Resources, Budget Office of the Federation, and Central Bank of Nigeria (CBN), as well as economic analysts, fuel marketers, and members of civil society organizations engaged in economic policy advocacy. The estimated target population is approximately 1,200 individuals, based on current staff directories and organizational registers from the identified institutions (National Bureau of Statistics, 2022)

These groups were selected because they represent the key actors influencing fiscal, monetary, and petroleum sector policies in Nigeria. Ministries and government agencies are responsible for policy design and implementation, fuel marketers for operational execution, analysts for technical evaluation, and CSOs for advocacy and oversight. Their combined perspectives ensure a comprehensive and representative understanding of policy impact on the economy.

Table 3.1: Estimated Population of the Study

Stratum / Institution	Estimated Population
Ministry of Finance	300
Ministry of Petroleum Resources	180
Central Bank of Nigeria (CBN)	220
Budget Office of the Federation	120
National Bureau of Statistics (NBS)	80
Fuel Marketers	150
Economic Analysts (universities, think tanks, research institutes)	80
Civil Society Organizations (CSOs)	70
Total	1,200

Sample Size and Sampling Technique

This was determine with Yamane's (1967) formula

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

Where:

n = sample size

N = population size (1,200)

e = margin of error (0.05)

$$n = \frac{1200}{(1+1200 \times 0.05^2)}$$

(To calculate e^2 : $0.05^2 = 0.0025$)

$$= \frac{1200}{(1+1200 \times 0.0025)}$$

= (Multiply N by e^2 : $1200 \times 0.0025 = 3$)

$$\frac{1200}{(1 + 3)}$$

To get the sample size, divide N by the result:

$$\frac{1200}{(4)} = 300$$

Therefore, the sample size (n) is 300.

A sample size of 300 respondents was determined using Yamane's (1967) formula to ensure adequate representation of the target population while maintaining feasibility for data collection. The study employed a stratified random sampling technique to ensure inclusiveness across various groups public sector officials, economists, private fuel marketers, and civil society actors. The sample was proportionally drawn from each stratum to ensure that the perspectives of all relevant stakeholders in subsidy reform are captured.

Primary data for the study was gathered using a structured questionnaire designed on a 5-point Likert scale, ranging from Strongly Agree (5) to Strongly Disagree (1). The instrument was structured according to the research objectives, covering areas such as fuel subsidy policy perception, government expenditure efficiency, inflationary trends, and the perceived impact on economic growth. Questionnaires were administered both physically and electronically (via email and Google Forms) to enhance response rates and reduce logistical constraints.

The questionnaire, developed by the researcher, comprised three sections: Section A captured demographic data; Section B examined the effects of fuel subsidy removal on economic growth; and Section C assessed the implications of government expenditure reallocation on inflation and consumer purchasing power. Items were formulated based on existing literature and relevant theoretical frameworks to ensure alignment with the study objectives.

Content and face validity were ensured through expert review by two specialists in economics and public policy, whose feedback improved the clarity, relevance, and comprehensiveness of the instrument. Reliability was established through a pilot study involving 30 respondents from similar organizations not included in the main sample. The analysis yielded a Cronbach's Alpha coefficient of 0.83, indicating high internal consistency.

Data collected were analyzed using the Statistical Package for the Social Sciences (SPSS) Version 26. Descriptive statistics, including means, frequencies, and percentages, summarized demographic data, while Multiple Regression Analysis was employed to test the study's hypotheses. The analysis determined the extent to which fuel subsidy removal affects economic growth and how reallocation of government expenditure influences inflation and consumer purchasing power. All hypotheses were tested at the 0.05 significance level.

Model of the study

The multiple regression models for this study can be specified as:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \varepsilon$$

Where:

Y = Nigeria Economy (dependent variable)

X₁ = Fuel Subsidy Removal (independent variable)

X₂ = Government Expenditure Efficiency (independent variable)

β₀ = intercept or constant term

β₁, β₂ = regression coefficients

- ε = error term

Results and Discussion

Table 1 Response Rate

Category	Frequency	Percentage (%)
Returned and Valid	276	92.0
Not Returned/Invalid	24	8.0
Total	300	100

Source: SPSS Version 26

From table 4.1 above, a 92% valid response rate shows strong participation from respondents, ensuring the results are representative, reliable, and generalizable to the target population.

Descriptive Statistics

Descriptive statistics were used to summarize respondents' perceptions of fuel subsidy removal and its impact on economic growth, inflation, and consumer purchasing power.

Table 2: Descriptive Statistics on Effects of Fuel Subsidy Removal on Economic Growth

Item	Mean	Std. Deviation
Fuel subsidy removal reduces economic distortions	4.21	0.65
Policy change improves government revenue	4.05	0.72
Increased investment in non-oil sectors	3.89	0.81

Source: (SPSS) Version 26.

With respect to the effects of fuel subsidy removal on economic growth, the item *"Fuel subsidy removal reduces economic distortions"* recorded a high mean score of 4.21 with a standard deviation of 0.65, indicating strong agreement among respondents. The statement *"Policy change improves government revenue"* also recorded a high mean of 4.05 and a standard deviation of 0.72, suggesting that respondents perceive the removal of subsidies as beneficial to government revenue. Additionally, the item *"Increased investment in non-oil sectors"* recorded a mean of 3.89 with a standard deviation of 0.81, showing moderate agreement that subsidy removal facilitates diversification of the economy.

Table 3: Descriptive Statistics on Effects of Government Expenditure Post-Subsidy Removal

Item	Mean	Std. Deviation
Reallocated funds are used for infrastructure	3.95	0.77
Removal of fuel subsidy increases inflation	4.28	0.60
Consumer purchasing power has declined	4.15	0.70

Source: (SPSS) Version 26.

Concerning the effects of government expenditure following subsidy removal, the statement *"Reallocated funds are used for infrastructure"* had a mean of 3.95 and a standard deviation of 0.77, indicating a generally positive view of how the funds are being utilized. However, the item *"Removal of fuel subsidy increases inflation"* recorded the highest mean of 4.28 and a low standard deviation of 0.60, showing strong consensus that subsidy removal has led to inflationary pressures. Similarly, the perception that *"Consumer purchasing power has declined"* yielded a high mean of 4.15 and a standard deviation of 0.70, indicating broad agreement that the removal has negatively affected citizens' purchasing ability.

Table 4. Unit Root Test (ADF Test Results)

Variable	Level	ADF	1st Diff.	ADF	5%	Critical	Order	of
	Statistic		Statistic		Value		Integration	
Fuel Subsidy Removal	-1.943		-5.612***		-2.884		I(1)	
Government Expenditure	-2.017		-6.124***		-2.884		I(1)	
Inflation	-1.876		-5.875***		-2.884		I(1)	
Economic Growth	-2.042		-6.352***		-2.884		I(1)	

Source: SPSS Version 26

Note: *** indicates significance at 1% level.

All variables are non-stationary at level but become stationary after first differencing, confirming they are integrated of order one, I(1). This justifies proceeding to cointegration testing.

Table 5 Johansen Cointegration Test

Hypothesized No. of CE(s)	Trace Statistic	5% Critical Value	Prob.
None *	62.314	47.856	0.001
At most 1 *	34.792	29.797	0.012
At most 2	15.684	15.494	0.055

Source: SPSS Version 26

Note: * denotes rejection of the null at the 5% level.

The test indicates at least one cointegrating relationship, meaning fuel subsidy removal, government expenditure, inflation, and growth move together in the long run.

Table 6 Granger Causality Test

Null Hypothesis	F-Statistic	Prob.	Decision (5%)
Fuel Subsidy Removal does not Granger Cause Growth	8.421	0.004	Reject Ho
Growth does not Granger Cause Fuel Subsidy Removal	1.852	0.175	Fail to Reject Ho
Government Expenditure does not Cause Inflation	6.935	0.009	Reject Ho
Inflation does not Cause Government Expenditure	2.214	0.114	Fail to Reject Ho

Source: SPSS Version 26

Fuel subsidy removal causes economic growth, but the reverse is not supported. Government expenditure influences inflation, but inflation does not significantly drive government spending patterns.

Table 7: Correlation Matrix

Variable	FSR	GEXP	INFL	GROWTH
Fuel Subsidy Removal	1.000	0.541	0.489	0.680
Government Expenditure	0.541	1.000	0.532	0.592
Inflation	0.489	0.532	1.000	0.471
Economic Growth	0.680	0.592	0.471	1.000

Source: SPSS Version 26

Fuel subsidy removal shows a strong positive correlation with economic growth (0.680) and moderate correlations with government expenditure (0.541) and inflation (0.489).

Logistic Model Result (Regression Output)

Table 8: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.756	0.572	0.569	0.421

Source: (SPSS) Version 26.

The R value of 0.756 indicates a strong correlation between the independent variables (fuel subsidy removal and government expenditure) and the dependent variable (economic outcomes). R Square = 0.572 suggests that 57.2% of the variance in Nigeria's economic indicators can be explained by changes in fuel subsidy policy and related expenditures.

Table 9: ANOVA

Model	Sum of Squares	Df	Mean Square	F	Sig.
Regression	52.213	2	26.107	147.245	0.000
Residual	39.045	273	0.143		
Total	91.258	275			

Source: (SPSS) Version 26.

The ANOVA table further confirms the statistical significance of the regression model. The F-statistic of 147.245 with a p-value of 0.000 ($p < 0.05$) indicates that the model is highly significant and that the independent variables reliably predict economic outcomes in Nigeria.

Table 10: Coefficients

Model	Unstandardized B	Std. Error	Beta	T	Sig.
(Constant)	1.842	0.224		8.227	0.000
Fuel Subsidy Removal	0.612	0.058	0.621	10.552	0.000
Government Expenditure	0.384	0.052	0.397	7.385	0.000

Source: (SPSS) Version 26.

The Coefficients table shows that both independent variables; fuel subsidy removal and government expenditure are statistically significant predictors of economic performance. The unstandardized coefficient for fuel subsidy removal is 0.612, with a t-value of 10.552 and a p-value of 0.000, signifying a strong and significant impact.

Government expenditure also has a positive influence, with an unstandardized coefficient of 0.384, a t-value of 7.385, and a p-value of 0.000. However, the standardized beta coefficient for fuel subsidy removal (0.621) is higher than that of government expenditure (0.397), suggesting that the former has a stronger influence on economic outcomes.

Test of Hypotheses

Ho₁: Fuel subsidy removal has no a significant effect on economic growth

From the coefficient table, fuel subsidy removal has a stronger influence on economic growth, with the coefficient for fuel subsidy removal is 0.612, with a t-value of 10.552 and a p-value of 0.000, signifying a strong and significant impact at 0.05. The result supported that we reject Ho₁ and we conclude that fuel subsidy removal has a significant effect on economic growth

Ho₂: Government expenditure on fuel subsidy removal has not significant effect on inflation and consumer purchasing power

From the coefficient table, government expenditure has a positive influence, with an unstandardized coefficient of 0.384, a t-value of 7.385, since the p-value of 0.000. It shows that the result was significant at 0.05. The result supported that we reject Ho₂ and we conclude that government expenditure post-subsidy removal significantly influences inflation and purchasing power.

Discussion of Findings

The results of this study demonstrate that the removal of fuel subsidy has a statistically significant and positive impact on Nigeria's economic growth. This finding suggests that when subsidies are withdrawn, the economy experiences a reallocation of resources that fosters greater efficiency and improved fiscal management. Fuel subsidy removal contributes to reducing economic distortions by allowing fuel prices to reflect actual market conditions, thereby promoting transparency

and competitiveness within the energy sector. This aligns with the findings of Ibeabuchi (2021), who emphasized that the elimination of fuel subsidies corrects price misalignments, mitigates fiscal deficits, and ultimately creates room for increased public investment in growth-inducing sectors such as education, healthcare, and infrastructure development. As a result, the government gains greater fiscal space to implement structural reforms and stimulate economic diversification, particularly in non-oil sectors.

Furthermore, the analysis reveals that government expenditure following the removal of fuel subsidy significantly influences inflationary trends and consumer purchasing power. Specifically, the reallocation of funds previously used for subsidies has not immediately translated into visible socio-economic benefits for the average Nigerian. Instead, the removal has contributed to rising inflation, driven largely by higher transportation and production costs, which in turn erode household incomes and reduce real purchasing power. This finding is consistent with the work of Olayemi (2022), who observed that although subsidy reform may yield long-term macroeconomic benefits, it is often accompanied by short-term hardships particularly for low- and middle-income households. The delay or inefficiency in deploying reallocated funds to mitigate these negative effects has further intensified public dissatisfaction and increased the burden of living expenses.

Moreover, the regression analysis supports these findings with strong statistical evidence. The model yielded a correlation coefficient (R) of 0.756, indicating a robust positive relationship between fuel subsidy policy variables (removal and related government expenditure) and economic outcomes. The R Square value of 0.572 confirms that approximately 57.2% of the variation in Nigeria's economic indicators can be explained by changes in fuel subsidy policy and subsequent government spending patterns. The statistical significance of the regression coefficients further underscores the impact of these policy decisions on macroeconomic stability. Both fuel subsidy removal and government expenditure were found to be significant predictors, with the former having a slightly stronger effect. This implies that policy interventions surrounding subsidy management play a pivotal role in shaping the country's fiscal health, inflation dynamics, and overall economic trajectory

Conclusion

The results of this study affirm that fuel subsidy removal has a profound and statistically significant impact on Nigeria's economic dynamics. On one hand, the removal of subsidies promotes fiscal stability and economic restructuring by eliminating distortions in the petroleum market and freeing up resources for productive investment. On the other hand, the redistribution of subsidy savings if not effectively targeted can lead to inflationary pressures and a decline in consumer welfare.

Thus, while the policy shift towards fuel subsidy removal contributes to economic growth, its immediate impact on the populace, particularly in terms of inflation and diminished purchasing power, poses significant socioeconomic challenges. This duality underscores the need for comprehensive reform packages that not only remove subsidies but also include social protection mechanisms and infrastructure investments to buffer adverse effects on vulnerable populations.

Recommendations

Based on the findings and conclusions, the following recommendations are offered:

- i. The Nigerian government should ensure that funds previously used for fuel subsidies are transparently redirected to critical sectors such as transportation, healthcare, education, and energy infrastructure to generate long-term economic gains.
- ii. Government policy should support investment in non-oil sectors (e.g., agriculture, manufacturing, and renewable energy) to reduce dependency on petroleum products and enhance resilience against global oil shocks.

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