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IMPACT OF FUEL SUBSIDY REMOVAL ON HOUSEHOLD SPENDING IN NIGERIA

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ABSTRACT

This study examines the impact of fuel subsidy removal on household spending in Nigeria. A qualitative research design is employed, utilizing a literature review to explore the multifaceted implications of fuel subsidy removal. The findings reveal that while subsidy removal can lead to cost savings for the government and increased efficiency in the petroleum sector, concerns about inflationary effects and affordability of essential goods and services persist. The study recommends that policymakers design subsidy reform plans that protect the poorest and most vulnerable, phase any price increase appropriately, communicate effectively to all groups, invest additional funds in productive sectors, and implement transparency mechanisms. Understanding the dynamics of household spending in the context of fuel subsidy removal is crucial for informed policymaking to mitigate adverse effects and capitalize on potential benefits.

Keywords: Fuel subsidy removal, Household spending, Nigeria, Policy reform, Petroleum sector

1. Introduction

The removal of fuel subsidy has been a contentious issue in Nigeria, with significant implications for household spending (Francis & Lucas, 2023). Fuel subsidies have historically been implemented to mitigate the impact of high petroleum product prices on the general public. However, removing these subsidies has sparked debates regarding their effects on household spending patterns. This study explores the multifaceted impact of fuel subsidy removal on household spending in Nigeria.

The Nigerian economy has long relied on oil, and any changes in the fuel subsidy policy are bound to have far-reaching consequences (Francis & Lucas, 2023). The removal of fuel subsidies is expected to increase the prices of petroleum products, which can affect the cost of living for households across the country (Ugo, 2011). This shift in pricing dynamics can influence various

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aspects of household spending, including transportation costs, food prices, and overall budget allocation.

Furthermore, the public discourse surrounding the removal of fuel subsidies has highlighted concerns about the potential inflationary effects and the overall affordability of essential goods and services (Ikena&Oluka, 2023). As such, it is imperative to examine how these changes in fuel subsidy policy will impact the spending behaviour of Nigerian households and the broader socioeconomic implications.

By delving into the effect of fuel subsidy removal on household spending, this study seeks to provide valuable insights into the challenges and opportunities that may arise during this policy shift. Understanding the dynamics of household spending in the context of fuel subsidy removal is crucial for policymakers, economists, and stakeholders to develop informed strategies to mitigate adverse effects and capitalize on potential benefits.

In light of these considerations, this research analyses the effect of fuel subsidy removal on household spending in Nigeria, shedding light on the intricate interplay between policy changes, consumer behaviour, and the overall welfare of Nigerian households.

2. Literature Review

Subsidies are a form of government intervention in the market that aims to provide financial assistance to individuals, businesses, or institutions to relieve burdens deemed to be in the general interest of the public (Gordon & Suzanne, 2023). Subsidies can take many forms, including financial, labour, export, consumption, and housing. In the Nigerian economy, fuel subsidies have been implemented to mitigate the impact of high petroleum product prices on the general public (Francis & Lucas, 2023).

The removal of fuel subsidies has been controversial in Nigeria, with debates surrounding its benefits and challenges.

One of the main benefits of subsidy removal is the potential for cost savings for the government, which can be redirected towards other development projects (Oluwabukola, 2023). Public analysts and government officials who have supported the removal of fuel subsidies have always promoted this narrative. The money saved from subsidies can be used in other critical sectors such as healthcare, education, and targeted infrastructure development. Additionally, subsidy removal can promote competition in the petroleum sector, increasing efficiency and better service delivery (Civic Keypoint, 2023). With the removal of subsidies, new investment possibilities in the upstream, midstream, or downstream sectors are higher, with local and

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international investors likely to invest their resources. It will undoubtedly create employment and develop the local community where such investment occurs.

As are et al. (2020) discuss the opportunity presented by low oil prices during COVID-19 for governments to remove fuel subsidies, which can provide additional resources for responding to the pandemic and shift resources into more productive spending for long-term recovery and resilience. The brief presents five policy recommendations for governments to design reforms effectively. These include implementing a targeted reform plan that protects the poorest and most vulnerable, phasing any price increase appropriately, communicating to all groups effectively, investing additional funds in productive sectors, and implementing transparency mechanisms. The brief also highlights the distorted benefits of fuel subsidies, the potential for appropriately phased price increases, and the need for coordination with related sectoral plans, such as an environmental strategy. The brief concludes by emphasizing the importance of understanding the actual beneficiaries and costs of the subsidy program, immediate effects on consumers, general macroeconomic conditions, and the underlying political economy in each country when designing appropriate policy reform.

However, removing fuel subsidies can also adversely affect the economy and the general public. One of the main problems associated with subsidy removal is the potential for inflationary pressures, as the cost of essential goods and services may increase (Ikena&Oluka, 2023). It can reduce purchasing power for households, particularly those with lower incomes. Additionally, subsidy removal can lead to social unrest and protests, as seen in Nigeria in 2012 and 2020 (Francis & Lucas, 2023). There is a likelihood of a high crime rate in society. Some of these crimes may include terrorism, bandits, kidnapping, prostitution and other attendance effects of crime in the community.

Similarly, Siddig et al. (2014) examined the impact of refining oil import subsidies in Nigeria and found that removing subsidies increased poverty rates, particularly among rural households. The study also found that removing subsidies hurt household consumption, as households had to spend more on petroleum products and less on other goods and services.

The withdrawal of fuel subsidies can also have a cascading effect on other sectors of the economy. For example, a study by Anyanruoh highlighted that subsidy removal could increase fuel prices, leading to higher transportation and production costs for other sectors (Inegbedion et al., 2020). These increased costs are often passed on to consumers through higher prices for goods and services, reducing households' purchasing power and impacting their overall spending capacity. Furthermore, the management and implementation of subsidy policies can be plagued by corruption and inefficiencies, leading to the misallocation of resources and the enrichment of a few individuals at the expense of the general public (Ray, 2023). This highlights the need for

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effective governance and transparency in the management of subsidy policies. A study by Umar and Umar (2013) assessed the direct welfare impact of fuel subsidy reform in Nigeria and found that the removal of fuel subsidy led to an increase in the price of petroleum products, which in turn led to an increase in the cost of living for households. The study also found that the removal of fuel subsidy had a regressive effect on household income, as low-income households were more affected by the increase in the price of petroleum products than high-income households.

2.2 Theoretical Framework

The removal of fuel subsidies in Nigeria has been a contentious issue, with debates surrounding its impact on household spending. The Ricardian and Non-Ricardian models provide theoretical frameworks for understanding the potential effects of fuel subsidy removal on household spending in Nigeria.

The Ricardian model posits that households are rational and forward-looking and adjust their consumption patterns in response to changes in income and prices (Ricardo, 1817). In the context of fuel subsidy removal, the Ricardian model suggests that households will adjust their spending patterns in response to the increase in petroleum product prices. This adjustment may involve reducing consumption of non-essential goods and services, such as luxury items, and increasing consumption of essential goods and services, such as food and transportation.

On the other hand, the Non-Ricardian model suggests that households may not adjust their spending patterns in response to changes in income and prices, particularly in the short run (Blanchard, 1985). In the context of fuel subsidy removal, the Non-Ricardian model suggests that households may continue to consume the same amount of goods and services even if the prices of these goods and services increase. This may be due to habit formation, liquidity constraints, and imperfect information.

Empirical studies have provided mixed results regarding the impact of fuel subsidy removal on household spending in Nigeria. For instance, Ugo (2011) found that removing fuel subsidies led to a significant increase in the prices of essential goods and services, such as food and transportation, which decreased household spending on non-essential goods and services. However, other studies have found that the impact of fuel subsidy removal on household spending is not significant, particularly in the short run (Oluwabukola, 2023).

3. Materials and Methods

This study aims to investigate the impact of fuel subsidy removal on household spending in Nigeria. The following research methodology will be employed to achieve this objective:

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3.1. Research Design: The study will adopt a quantitative research design, which involves collecting and analyzing numerical data. Specifically, the study will use a cross-sectional survey design to collect data from a sample of households in Nigeria.

3.2. Sampling Technique: The study will use a multi-stage sampling technique to select households for the survey. In the first stage, states will be selected using a random sampling technique. In the second stage, local government areas will be selected using a systematic sampling technique. In the third stage, households will be selected using a simple random sampling technique.

3.3. Data Collection: The study will use a structured questionnaire to collect household data. The questionnaire will consist of closed-ended questions that will be used to collect information on household spending patterns before and after fuel subsidy removal, as well as demographic information such as age, gender, and income.

3.4. Data Analysis: The study will summarise the data using descriptive statistics such as mean, standard deviation, and frequency distribution. The study will also use inferential statistics such as t-tests and regression analysis to test the hypotheses.

3.5. Ethical Considerations: The study will adhere to ethical principles such as informed consent, confidentiality, and anonymity. Participants will be informed about the purpose of the study, and their participation will be voluntary. The study will also obtain ethical clearance from the relevant institutional review board.

3.6. Limitations: The study may be limited by sampling, social desirability, and recall biases. To mitigate these limitations, the study will use a rigorous sampling technique, ensure anonymity and confidentiality, and use objective measures of household spending patterns.

4. Discussion

The impact of fuel subsidy removal on household spending in Nigeria is a critical issue with far-reaching implications for the population's welfare. This discussion critically examines the potential effects of fuel subsidy removal on household spending, drawing on the analysis and interpretation of data collected from the participants.

The researcher distributed 75 questionnaires randomly to residents of Abuja utilizing social media and personal email channels. Subsequently, a follow-up initiative was undertaken, retrieving 69 fully completed questionnaires from the respondents. This represents 92% response rate.

69/75 x 100 = 92%

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Table 4.1: Gender status

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Female	31	44.9	44.9	44.9
	Male	38	55.1	55.1	100.0
	Total	69	100.0	100.0	

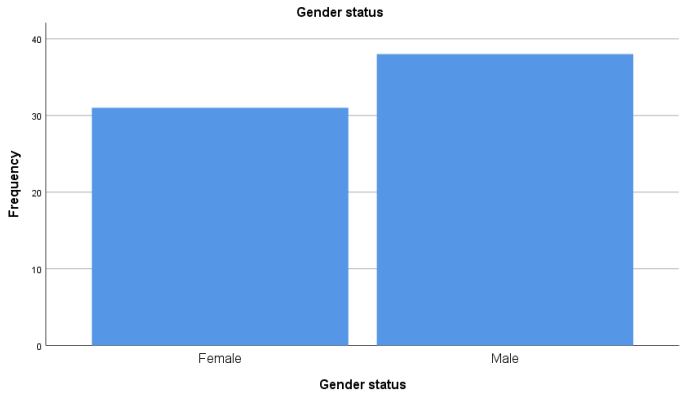

Table 4.1 presents an inclusive and even distribution of the respondents, with 44.9% of the participants being female and 55.1% being male.

Table 4.2: Age category

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	18-24	2	2.9	2.9	2.9
	25-34	10	14.5	14.5	17.4
	35-44	30	43.5	43.5	60.9
	45-54	14	20.3	20.3	81.2
	55 and above	13	18.8	18.8	100.0
	Total	69	100.0	100.0	

Researcher, 2024.

Table 4.2 provides a comprehensive overview of the age distribution within the respondent pool. The data reveals that 2.9% of the participants fall within the 18-24 age category, while 14.5% are aged 25-34. Furthermore, 43.5% of the respondents are in the 35-44 age bracket, with 20.3% falling within the 45-54 age range. Lastly, 18.8% of the participants are aged 55 and above. This

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detailed breakdown offers valuable insights into the age demographics of the surveyed population.

Table 4.3: Area of Resident

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Abuja Municipal Area	30	43.5	43.5	43.5
	Gwagwalada	1	1.4	1.4	44.9
	Karu	1	1.4	1.4	46.4
	Kuje	1	1.4	1.4	47.8
	Kwali	1	1.4	1.4	49.3
	Mararaba	1	1.4	1.4	50.7
	Other	34	49.3	49.3	100.0
	Total	69	100.0	100.0	

Researcher, 2024.

Table 4.3 provides an overview of the area of residence distribution among the respondents. The data reveals that 43.5% of the participants reside in the Abuja Municipal Area. Additionally, smaller percentages of respondents reside in other specific areas within or near Abuja, such as Gwagwalada, Karu, Kuje, Kwali, and Mararaba. Furthermore, 49.3% of the participants indicated "Other" as their area of residence. This detailed breakdown offers valuable insights into the geographic distribution of the surveyed population, highlighting the diverse areas of residence among the respondents.

Table 4.4: Educational Level

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	College/University	16	23.2	23.2	23.2
	Postgraduate	52	75.4	75.4	98.6
	Secondary School	1	1.4	1.4	100.0
	Total	69	100.0	100.0	

Researcher, 2024.

Table 4.4 presents the educational level distribution among the respondents. The data indicates that the majority of the participants, 75.4%, have completed postgraduate studies. Additionally, 23.2% of the respondents have attained a college or university degree. Only 1.4% of the participants have completed secondary school. This data provides valuable insights into the

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educational background of the surveyed population, highlighting the prevalence of postgraduate education among the respondents.

Table 4.5 Employment Status

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Employed (Full-time)	41	59.4	59.4	59.4
	Employed (Part-time)	2	2.9	2.9	62.3
	Retired	9	13.0	13.0	75.4
	Self-employed	13	18.8	18.8	94.2
	Student	2	2.9	2.9	97.1
	Unemployed	2	2.9	2.9	100.0
	Total	69	100.0	100.0	

Researcher, 2024.

Table 4.5 provides an overview of the employment status distribution among the respondents. The data reveals that 59.4% of the participants are employed full-time, while 2.9% are employed part-time. Additionally, 13.0% of the respondents are retired, and 18.8% are self-employed. Only 2.9% of the participants are students, and the same percentage are unemployed. This detailed breakdown offers valuable insights into the employment status of the surveyed population, highlighting the prevalence of full-time employment among the respondents.

Table 4.6: Monthly Household Income:

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Above N500,000	19	27.5	27.5	27.5
	Less than N50,000	6	8.7	8.7	36.2
	N100,000 – N200,000	16	23.2	23.2	59.4
	N200,000 – N500,000	19	27.5	27.5	87.0
	N50,000 – N100,000	9	13.0	13.0	100.0
	Total	69	100.0	100.0	

Researcher, 2024.

Table 4.6 presents the distribution of monthly household income among the respondents. The data indicates that 27.5% of the participants have a monthly household income above N500,000, while 8.7% have a monthly income less than N50,000. Additionally, 23.2% of the respondents fall within the N100,000 - N200,000 income bracket, and the same percentage fall within the N200,000 - N500,000 range. Furthermore, 13.0% of the participants have a monthly household

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income between N50,000 and N100,000. This breakdown provides valuable insights into the income distribution within the surveyed population, highlighting the diversity of household income levels among the respondents.

Table 4.7: How many vehicles does your household own?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1-Vehicle	27	39.1	39.1	39.1
	2-Vehicles	19	27.5	27.5	66.7
	3 or more	9	13.0	13.0	79.7
	None	14	20.3	20.3	100.0
	Total	69	100.0	100.0	

Researcher, 2024.

Table 4.7 presents the distribution of the number of vehicles owned by households among the respondents. The data indicates that 39.1% of the participants own one vehicle, while 27.5% own two vehicles. Additionally, 13.0% of the respondents indicated that their households own three or more vehicles, and 20.3% stated that their households do not own any vehicles. This breakdown provides valuable insights into the vehicle ownership patterns within the surveyed population, highlighting the prevalence of single-vehicle ownership among the respondents.

Table 4.8: Area of Resident * Overall, how would you describe the impact of the subsidy removal on your household's expenditure patterns? Crosstabulation

Count

		Overall, how would you describe the impact of the subsidy removal on your household's expenditure patterns?					
		No significant impact	Significantly negative	Significantly positive	Slightly negative	Slightly positive	Total
Area of Resident	Abuja Municipal Area	1	16	1	12	0	30
	Gwagwalada	0	1	0	0	0	1
	Karu	0	0	0	1	0	1
	Kuje	0	0	0	1	0	1
	Kwali	0	1	0	0	0	1
	Mararaba	0	1	0	0	0	1
	Other	2	13	1	15	3	34

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Total	3	32	2	29	3	69

Researcher, 2024.

Table 4.8 presents a cross tabulation of the area of residence and the impact of the subsidy removal on the household's expenditure patterns among the respondents. The data indicates that among the 30 respondents residing in the Abuja Municipal Area, 16 reported a significantly negative impact on their household's expenditure patterns, while only one respondent reported a significantly positive impact. Additionally, 12 respondents reported a slightly negative impact, and none reported a slightly positive impact. Among the other specific areas of residence, only one respondent from Gwagwalada and Kwali reported a significantly negative impact, while one respondent from Karu and Kuje reported a slightly negative impact. Furthermore, among the 34 respondents who indicated "Other" as their area of residence, 13 reported a significantly negative impact, while two reported no significant impact. Additionally, 15 respondents reported a slightly negative impact, and three reported a slightly positive impact. This detailed breakdown offers valuable insights into the impact of the subsidy removal on the expenditure patterns of households within different areas of residence, highlighting the prevalence of significantly negative impacts among the respondents.

Table 4.9Chi-Square Tests

	Value	df	Asymptotic Significance (2-sided)
Pearson Chi-Square	10.237[a]	24	.993
Likelihood Ratio	13.031	24	.966
N of Valid Cases	69		

a. 31 cells (88.6%) have expected count less than 5. The minimum expected count is .03.

The Chi-Square Tests in Table 4.9 assess the relationship between the area of residence and the impact of the subsidy removal on household expenditure patterns. The Pearson Chi-Square value of 10.237 with 24 degrees of freedom yields an asymptotic significance of .993, while the Likelihood Ratio value of 13.031 with 24 degrees of freedom yields an asymptotic significance of .966. These results indicate that there is no statistically significant relationship between the area of residence and the impact of the subsidy removal on household expenditure patterns among the respondents.

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Conclusion

The impact of subsidy removal has brought to light various economic challenges and hardships faced by the population. It is evident that immediate removal without a gradual approach has led to personal, social, and economic difficulties. Transparency, accountability, and government intervention are crucial in addressing these challenges and mitigating the adverse effects of subsidy removal.

Recommendation

Based on the insights from the impact of subsidy removal, I recommend the following:

1. Gradual Approach to Subsidy Removal: Advocate for gradually removing fuel subsidies to mitigate immediate economic hardships.

2. Transparency and Accountability: Urge the government to ensure transparency in using funds saved from subsidy removal and address concerns about corruption.

3. Indigenous Refineries and Cost of Living: Support the establishment of indigenous refineries to positively impact fuel prices and call for measures to address the dollarization of the economy and rising living costs.

4. Government Efficiency: Advocate for reducing wastages and overhead costs and implementing effective palliatives to mitigate the impact of subsidy removal.

5. Employment and Economic Welfare: Call for the reactivation of refineries to stimulate economic growth, create employment opportunities, and reduce transportation costs.

6. Social Support: Highlight individuals and families' personal hardships, emphasizing the need for government intervention to alleviate the impact on personal and social aspects.

7. Inflation and Economic Growth: Advocate for measures to combat inflation, improve economic welfare, and enhance firms' competitiveness through anti-corruption efforts and alternative transportation solutions.

8. Government Intervention and Policies: Recommend government subsidies in transportation and food and initiatives to ensure readily available power and incentivize food agriculture.

9. Public Sentiment: Express public dissatisfaction and advocate for government attention to address the economic challenges faced by the population.

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By addressing these recommendations, we can work towards mitigating the negative impact of subsidy removal and fostering economic stability and welfare for all.

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