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Subsidy Removal and Economic Revitalization of Nigeria

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Abstract

This research examines the impact of subsidy removal on the economic revitalization of Nigeria. Subsidy removal has been a contentious issue globally, and its effects on developing economies, such as Nigeria, have been widely debated. The paper aims to provide an in-depth analysis of the rationale behind subsidy removal, its potential benefits, and the challenges faced by the Nigerian economy in the process of revitalization. Additionally, the paper explores policy recommendations to ensure a sustainable and inclusive economic growth trajectory for Nigeria.

Keywords: Subsidy removal, economic revitalization, fiscal sustainability, Nigeria, social impacts, policy recommendations

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Introduction:

Nigeria, as one of the largest economies in Africa, has faced persistent economic challenges, including fiscal imbalances and over-dependence on oil revenue. The removal of subsidies has been proposed as a key strategy to address these issues and stimulate economic revitalization. This paper seeks to evaluate the impact of subsidy removal on Nigeria's economic landscape.

Historical Context of Subsidies in Nigeria:

The economy of Nigerian has been subsided in a variety of ways for several years and this included fuel, education, electricity, etc. Fuel subsidies began in the 1970s and became institutionalized in 1977, following the enactment of the Price Control Act which made it illegal for some goods to be sold above the regulated price. Though the idea of subsidy itself is splendid, its organization in Nigeria has been inundated with severe allegations of fraud and unprofessional conduct. Thirteen years after diesel was deregulated, the kerosene subsidy was removed in 2016. Nevertheless, the subsidy on Premium Motor Spirit (PMS) has proven to be the principal challenge to the managers of the Nigerian economy. On an annual basis, a substantial portion of the national inflow is committed to funding the subsidy scheme. Of course there are good reasons for the astronomical growth in subsidy amount - price of crude oil in the international market, volume of PMS consumed albeit debatable, and Naira devaluation are some of the drivers. In view of the significance of the amount committed to funding the subsidy regime, there is a need to have a close look at this scheme (Pwc, 2023). Nigeria provides substantial fuel subsidies. As per the most recent estimate, the state's gasoline subsidies are USD 3.9 billion, which is nearly twice as much as the whole health budget (Neil McCulloch, 2020).

Economic Challenges Necessitating Subsidy Removal:

Unsustainable financial cost of subsidy: According to the World Bank, Nigeria's total revenue in 2000 was USD10.8 billion. By 2010, this amount increased to USD 67.9 billion. Yet the Nigerian government has spent over USD 30 billion on fuel subsidies over the past 18 years. This has had a significant impact on funds available for critical infrastructure and other essential sectors such as education, health, and defence. According to the Debt Management Office, the country's public debt stock is being increased as the government had to borrow N1trn to finance fuel subsidy in the year 2022.

Economic Distortion: Less than 3% of fuel purchases are made by households in the lowest 40% of the income distribution, per a report. Additionally, it is stated that government agencies, commercial companies, and other industries use seventy-five percent of all fuel sold in Nigeria. The majority of trucks that are used to transport big loads of passengers and cargo—like molue—are diesel-powered and have already been deregulated. Additionally, the poor no longer receive subsidies for household kerosene, which means that they already pay a considerable portion of market pricing for their fuel. This essentially suggests that the government is not helping the most vulnerable people who require fuel subsidies, but rather those who can afford to pay market prices for gasoline (PMS). One of the main issues with the way fuel subsidies are administered in Nigeria is this. In order for the intended beneficiaries of the subsidy to reap its benefits, an innovative evaluation and restructuring of the current structure will be necessary (Neil McCulloch, 2020).

Endemic Corruption: Gasoline importation, or supply, serves as the gasoline subsidy point as opposed to the pump for qualified consumers alone. The current structure of subsidies promotes corruption in other forms, including arbitrage.

Global Perspectives on Subsidy Removal and Economic Outcomes

The government has made an effort to highlight the advantages of doing away with the fossil fuel subsidies, such as having more money available for improvements to healthcare, education, and public infrastructure. According to the prevailing global viewpoint, keeping gasoline subsidies in place frequently leads to inefficiencies and financial leakages. As a result, there is increasing agreement that in order for all countries to meet their climate change commitments, fossil fuel subsidies must eventually be removed (Eyo, 2023).

Rationale for Subsidy Removal:

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a. Reducing budgetary constraints and promoting fiscal sustainability: Public finance sustainability, also known as fiscal sustainability, refers to a government's capacity to continue implementing its current tax, spending, and other policies over the long term without endangering its solvency or failing to pay some of its debts or obligations. The ability of a government to keep public finances in a respectable and useful state over an extended period of time is known as fiscal sustainability. Governments must continuously engage in strategic forecasting of future revenues and liabilities, environmental issues, and socio-economic developments in order to adjust financial planning and ensure long-term fiscal sustainability. High and rising debt levels are bad for governments' ability to manage their finances because they can start a vicious cycle of debt accumulation that takes money away from worthwhile endeavors and reduces the potential for economic progress (OECD, 2013).

b. Encouraging private sector investment: the issue of private sector involvement in the economic emancipation of Nigeria cannot be over emphasized. It is obvious that going by the complex nature of the Nigerian state, it is obvious that the government alone may not meet up with the demands for a sustainable economy; it is therefore imperative that the private sector is encouraged to invest in the economy. Subsidy removal can encourage the private sector to invest in the downstream sector of the economy. In order to attain the intended level of investment, the private sector must be involved. The government's own investment can help to enable this. This type of investment carries a very high leverage. Priority should be given to any such growth that makes public sector investment possible. Assertions on resource income (Natural Resource Governance Institute)

c. Redirecting resources towards critical sectors: this is another important rationale for subsidy removal. The resources can be redirected to critical sectors of the economy like education and health. In her June 2023 edition, the Nigeria Development Update was of the view that the recent removal of the petrol subsidy and the foreign exchange (FX) management reforms are critical steps to address long-standing macroeconomic imbalances and have the potential to establish a solid foundation for sustainable and inclusive growth. To shield the poor and most vulnerable from increases in living costs, temporary and targeted cash transfers should be considered, as part of a new social compact to sustainably redirect resources towards addressing Nigeria's most urgent development priorities (The World Bible, 2023).

Economic Impacts:

a. Inflationary pressures and short-term economic shocks: it is quite important that we understand the economic implication of subsidy removal. It may not be a smooth sailing ship at the beginning. It will be characterize with inflationary pressure and short-term economic shocks as Nigeria is currently experiencing. In June 2023,the headline inflation rate rose to 22.79% relative to may 2023 headline inflation rate which was 22.42% (Azeez, 2023). Looking at the movement, the June 2023 Headline inflation rate showed an increase of 0.38% points when compared to May 2023 headline inflation rate (Nigerian Bureau of Statistic, 2023).

b. Enhancement of fiscal discipline and transparency: Responsible management of public finances, including income generation, expenditure control, and debt management, is a component of fiscal discipline. To encourage fiscal prosperity, government financial actions and decisions must be transparent to the public. Which's absence can encourage corruption. Encouraging accountability and openness while battling corruption fortifies competent financial management, strengthening the basis of fiscal discipline (Periola-Fatunsin, 2023).

c. Improved business environment and investment climate: subsidy removal has the tendency of improving the business environment and enhancing investment climate, making it conducive for investors and investment.

Social Impacts:

a. Vulnerable population considerations: Subsidy removal has its social impact. The government should put into consideration the vulnerable population in the implementation of the subsidy removal policy. In Nigeria, the most vulnerable groups are those who are under five years old, pregnant women, individuals with disabilities, the elderly, the displaced, the jobless, pensioners, and the ill. The Elderly are one of these vulnerable groups that occasionally receives free health care services and exemptions from government regulations, while other vulnerable groups in Nigeria are not recognized as vulnerable groups by the current policy (Eromosele)

b. Social safety nets and mitigating measures: The Bola Tinubu administration declared on July 18, 2023, that poor Nigerians would get N8,000 as a result of the naira's floating value and the elimination of gasoline subsidies. Due to rising transportation costs, these policies have caused a noticeable increase in the price of consumables, most notably food. To alleviate the economic burden, the Tinubu administration has applied to the World Bank for a loan of $800 million. Although this might offer some short-term respite, it is unclear how this financing will be distributed and how much it will be able to offset the effects of the changes in economic policy. The purpose of this loan is to finance Nigeria's cash distribution program from the outset. Nigeria's N8, 000 cash distribution program is part of an ambitious social safety net expansion strategy that the country started in 2016. The initiative, which aims to assist millions of low-income Nigerians, is part of Nigeria's efforts to combat the country's pervasive poverty and economic instability.

Nigeria has historically struggled to provide social protection; in 2021, it spent just 0.7% of its GDP on safety nets, a far cry from the 1.5% average for Sub-Saharan Africa and the 1.5% average for the entire world. The majority of Nigerians are now at risk due to this inadequate investment, with less than 20% receiving benefits from any safety net program. The purpose of the N8, 000 cash transfer program is to increase this coverage and help millions of people financially. There is a rising fear that many intended recipients of the program may be missed, as there have been disparities in the program's stated reach (Ogbuli, 2023).

c. Public perception and communication strategies: the public view of subsidy removal is entirely of a mixed up one from what the government intension is. According to analysis, opinions on the withdrawal of fuel subsidies are divided, with 47% of Nigerians thinking it is worth the consequences, and 52% disagreeing. As such, the survey gauges residents' perceptions of the price at which they would no longer be able to purchase petrol (Noipolls, 2023).

Challenges and Risks:

a. Political resistance and public protests

b. Potential increase in social inequality

c. External factors affecting global oil prices

Policy Recommendations:

a. Phased and well-communicated subsidy removal strategies.

b. strengthening social safety nets and targeted interventions.

c. Diversification of the economy through strategic investments in non-oil sectors

Conclusion:

This paper concludes by summarizing the key findings and emphasizing the need for a comprehensive approach to subsidy removal in Nigeria. The potential for economic revitalization exists, but effective policies, public awareness, and targeted interventions are essential to mitigate challenges and ensure a sustainable and inclusive economic growth trajectory.

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