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Post-fuel subsidy removal in a high inflation environment: Lessons for monetary-fiscal policy mix coordination in Nigeria

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ABSTRACT

This study examined the effect of the May 2023 fuel subsidy removal in Nigeria, culminating in a high rate of inflation in the country. The removal of Nigeria's fuel subsidy marked a pivotal shift in the country's macroeconomic policy landscape, aimed at addressing fiscal unsustainability but unleashing inflationary pressures that have profoundly altered living standards. While the reform, which is an avenue to free up resources for infrastructure, social safety nets, and productive investments, could not have surfaced at a better time in the country, the abrupt implementation without prior mitigation strategies in anticipation of the effects on the masses pushed the economy to the brink of chaos. This necessitates a critical look into the monetary-fiscal policy mix coordination in the country. The country's reliance on oil wealth, import dependence, fuel subsidy administration corruption, and structural vulnerabilities amplified the reform shocks. Despite the reform recording appreciable success, an additional 4 million Nigerians have been found to be impoverished. In less than two years, poverty levels in the country increased from 129 million to about 133 million Nigerians. Practical policy recommendations emphasize targeted interventions and phased reforms to harness long-term benefits.

Contribution/Originality: The study adopts a multi-dimensional approach to assess the immediate and long-term socio-economic effects of Nigeria's fuel subsidy removal, focusing on real-time data analysis and stakeholder perspectives. It emphasizes the interplay between monetary-fiscal policy coordination and offers insights into their implications and adaptive strategies for economic resilience in the country.

1. INTRODUCTION

Fuel subsidy introduction in Nigeria dates back to the post-global oil crisis era of the 1970s that pushed up petroleum product prices worldwide (Inegbedion, Inegbedion, Obadiaru, & Asaleye, 2020; Okwa, Okwonu, & Owoyi, 2024). The intervention, which caused petrol prices to sell below market prices, shielded users from the harsh effects that could have resulted from volatility. The gesture soon evolved into a fiscal phoenix in the country, consuming a significant portion of Nigeria's revenue. In 2022 alone, N4.39 trillion, representing 25 percent of Nigeria's budget and 10 percent of the country's GDP, was allocated to fuel subsidy (Akinleye, 2025). For decades, Nigeria experienced unprecedented fiscal drain and avoidable debt accumulation as subsidies kept rising, forcing economic reliance on monetization by the apex bank. This act fueled inflation and the continuous depreciation of the naira year after year. Corruption and inefficiency exploited the opaque governance style of succeeding administrations to enable the import of refined petroleum products fraudulently. Examples include the uncovered $6 billion racket involving NNPC

officials during the 2012 probe, discouragement of domestic refining, which delayed the Dangote Refinery's operation until 2024, and smuggling petrol to neighboring countries (Ojochenemi, 2025).

The country has, in all, endured economic distortions in no small way during the fuel subsidy era. Market signals were suppressed, subsidies stifled innovation in the real sectors of the economy, and conditions worsened during the oil price shocks caused by the Ukraine war outbreak in 2022, which amplified import bills with the country having no hedging alternative because of its oil reliance (Taiwo, Uwilingiye, & Osei-Assibey, 2024). The resultant fund trade-off was felt in health, education, infrastructure, and other areas that were grossly unattended to. While the subsidy issue was topical in the country during these periods, successive governments either steered clear or delayed reform to tame the tide. This may, however, be attributed to avoidance of political risks and fear of eroding credibility, among others. In essence, the long-sustained subsidy entrenched the Nigerian economy in a low-growth trap that could be said to have dragged the country backward for decades.

1.1. Inflation Dynamics in Nigeria

1.1.1. Pre-2023 Experience

Nigeria's three-year average annual rate of inflation ranges between sixteen and nineteen percent, from 2020 through 2022 (National Bureau of Statistics, 2022). The drive, which was largely felt in the prices of food and supply challenges, could have been sharper but was cushioned through subsidies that kept fuel and transport costs down. These recorded inflation rates were noted to have been that high, given the COVID-19 lockdown, which disrupted supply and destabilized the naira, oil price recovery, and subsidy monetization. The minimum wage in Nigeria, which remained stagnant at ₦30,000 for several years, in a way, added to the incidence of the inflation rate on the masses. Although the general living standard plunged and was further strained by low productivity in the face of an increasing population, subsidies were able to mask some inflationary tendencies on welfare as the overall consumer price index (CPI) in the country was below the twenty-five percent level recorded in 2023 (International Monetary Fund, 2022; National Bureau of Statistics, 2024). The Muhammadu Buhari administration adopted a dual approach towards tackling high living costs and subsidy challenges. While moving to address the underlying subsidy pressure through monetary tightening, palliative subsidies to contain harsh inflation incidence on the masses were equally ensured. This approach was implemented by maintaining the Monetary Policy Rate at 13 percent for a good part of 2022 to keep liquidity in check without stifling credit to SMEs. The palliative measure also included ₦4 trillion subsidies and ₦1.5 trillion for social investment programs targeted towards vulnerable households in the year's national budget (World Bank Group, 2023). The dousing effect on inflation is thus obvious and cannot be overemphasized.

This period was marked by market distortions where subsidized fuel was smuggled to neighboring countries while the country groaned under huge and increasing fiscal deficits. Policy perspectives show that the subsidy implementation in Nigeria actually provided certain macroeconomic stability, no doubt. This is evident in the reigning subsidy, which offered short-term relief and kept pushing the doom's day further. This is because even in the face of subsidy, inflation was up, and in a way, rendering the subsidy ineffective, implying that the root causes of high living costs did not seemed to be addressed. The country subsists under foreign reserve shortages year-on-year, while the level of insecurity disrupting economic activities deepens. Such persistent inflation in the face of subsidy was criticized by the IMF (2023) and described as "unsterilized interventions" (IMF, 2023). While the government implemented some of the IMF recommendations, albeit slowly, inequality still deepens as subsidies disproportionately benefit the middle class over the poor. Clearly, the operated fuel subsidy system showed that it functioned more as a patronage tool than an equitable social policy where consumer prices were stabilized while economic distortions were window-dressed. The illusionary stability was built on borrowed time, debt funding, and oil proceeds. Past successive governments were noted to have prioritized containment frameworks where national distress was rather managed over reform. Inflation was obviously eroding accrued gains, but subsidies were used to avert crises. However, the

whole nation got acclimatized to the approach. This thus made the post-2023 subsidy removal shock wave understandable.

1.1.2. Post-2023 Experience

The reality of fuel subsidy removal hit almost instantaneously with the announcement by the President-elect in May 2023, with petrol pump prices tripling to ₦617 from around ₦200 per litre. The price maintained a steady increase, with a litre of petrol selling for over N1,000 in 2024 (ICIR, 2023; National Bureau of Statistics, 2023). The effect, through increased transportation and production costs, was rapid and threw almost the entire country into despair. While the country's GDP growth dropped in the third quarter of 2023 before gradually picking up in 2024, inequality between the rich and the poor rapidly deepened. The period witnessed the closure of some local and foreign firms due to unsustainable costs and exchange rate instability, which reached a high level of ₦1,700/$ (Central Bank of Nigeria, 2024a). Comparatively, the country's inflation jumped from about 18 percent pre-subsidy removal to over 34 percent in 2024. Living costs became more than double what they were, worsened by the unemployment level rising to almost 41 percent (Abdullahi, Obi, & Abubakar, 2025; Alexander, 2024). At the moment, the country is in the middle of mixed effects of the subsidy removal. By the fourth quarter of 2025, imported landing costs of PMS have adjusted to about ₦829 per liter, and depot prices dropped to around ₦889 per liter following Dangote Refinery's adjustments. This has an upward influence on retail prices, causing inflation spikes and increased poverty.

Considering Nigeria's yearly increasing debt profile, keeping the fuel subsidy around is not fiscally sustainable, and its removal is logical. While pricing has been turbulent domestically during this period, the subsidy removal policy has been established to eliminate an annual drain of over six trillion naira (Aigbe, 2024; ODI Working Paper, 2024). This thus encourages efficiency by creating funds for other uses such as increased state revenues. Although the attendant hardship that came along with the sudden implementation almost turned the growth-oriented intention into a protracted crisis for many Nigerians, causing the adverse effect of the removal to be overbearing. The abrupt removal has no doubt revealed that the slight economic stability in the country during the pre-removal era had been masking the fiscal rot hidden in the economy. The deadweight loss from subsidies, which could be estimated at trillions in opportunity costs, highlights the economic distortions created by energy subsidy. Recently, the country recorded a headline inflation rate decline from 18.02 percent in September to 16.05 percent in October 2025. While this was the second consecutive reduction in the inflation rate recorded in October 2025, the economic hardship across the country never seems to have eased. The reason being that prices are still rising, but at a relatively slower rate. Nigeria's current inflation rate of 16.05 percent is, however, the lowest in the past three years since 2022. On a year-on-year basis, the rate of inflation in the country has weakened by over two-digit points from the 33.88 percent recorded in October 2024. (Central Bank of Nigeria, 2024b; National Bureau of Statistics, 2024). Table 1 presents comparison metrics during the pre- and post-subsidy removal periods.

Table 1. Comparison metrics – Pre and post subsidy removal.

Metric	Pre-Removal (2022–Early 2023 Avg.)	Post-Removal (2024 – 2025 Avg.)	Change
GDP growth	3.3% [1]	3.0 – 3.9% [2]	+0.6% (rebound)
Inflation	17.0% [3]	24 – 34% [4]	+10 – 17 pts
Petrol Price	₦185 – ₦238/L [5]	₦655 – ₦1,025/L [6]	+199 – 455%
Poverty Rate	40% [7]	45 – 47% (+7M) [8]	Worsened

Source: National Bureau of Statistics (NBS) (2022b); African Development Bank (AfDB) (2025); National Bureau of Statistics (NBS) (2022a); National Bureau of Statistics (NBS) (2025); Reuters (2023); Nigerian National Petroleum Company (NNPC) (2025); National Bureau of Statistics (NBS) (2022c) and World Bank (2025b).

1.2. The Real Sector Impact and Response

A few years into the current era, structural vulnerabilities and uneven policy outcomes may be said to have continued to shape the nation's economic trajectory. The reform, dubbed a bold leap at eliminating the annual trillion

naira draining mechanism, further tightened inflation grip, and still lacks appreciable reflection on the country's real sector. This is in spite of the fact that the reform has successfully unlocked some fiscal space for potential reinvestment. The growth of Nigeria's economy, projected at 3.4% for the 2025 fiscal year, is attributed to oil and services, with insignificant contribution expected from the real sectors (NESG, 2025; Sunday, Pillah, & Ayeh, 2025). Agriculture, manufacturing, transport and logistics, service, and other sectors known for their livelihood and productivity impact saw sub-optimal transformation, thus highlighting the reforms' inadequacy.

Nigeria's agricultural sector, which absorbs nearly 40 percent of the country's workforce and contributes about 20 percent to the national output, already suffers from pre-existing climate issues and insecurity challenges (Gavrilova, 2020). The discontinuation of fuel subsidies and the resulting rising inflation have escalated these challenges. Increased transportation costs, driven by high fuel prices, have raised expenses for farm inputs and produce, pushing food prices up. Consequently, food inflation rates averaged about 32 percent in 2024 (Ukwe, 2025). The high food prices are a response to reduced planting scales and the trimming of livestock and poultry among smallholder farmers, who dominate the sector and mainly reside in rural areas. Rural farmers' purchasing power has eroded significantly, with the contraction deepening poverty among them and beyond. While the sector hopes to benefit from fiscal savings from subsidy removal to support infrastructure and projects, this has not materialized yet, partly due to competing national issues.

The grip and effect of the birthed inflation dynamics are pronounced on the industrial sector, cutting across manufacturing and other non-oil sectors with amplified cost pressures, dampening demand, and by extension, sub-optimal performance. Between 2024 and 2025, manufacturing experienced less than 2 percent growth, dragging down the sector's past 10 percent contribution to GDP (Owan, Ifere, & Odey, 2024). Many factories and small and medium enterprises (SMEs) were closed, and several jobs were lost. Demand for manufactured goods was suppressed as inflation reduces consumers' spending power, leading to industrial inventory build-up. Solid minerals, as a non-oil mining sub-sector, experienced stalled growth amid risen diesel-dependent hauling fees, while its exports also got hindered as a result of inflation. The construction sub-sector experienced slowdowns and delays in project execution caused by inflated material costs. The sector's contribution to GDP in 2025 slowed compared to the 3 to 4 percent growth in the previous year (Umaru, Ulori, Unoh, & Salihu, 2025). The higher mortgage rates tied to the central bank's 26.25 percent policy rate significantly influenced private construction, causing it to contract as skyrocketing living costs drove down investments.

Rising inflation negatively affected transport services, causing transport fares in the country to more than double their pre-subsidy removal rate while eroding the hospitality sub-sector margins through increased and higher operational costs. However, a few of the real sectors saw some positive impacts recently, largely due to Naira stabilization and reduced foreign exchange distortions in the post-subsidy removal era. This sector comprises transport, hospitality, and non-financial services, contributing over 50 percent to the country's GDP (Aminu & Manko, 2024). This has expanded with a continued trend from 2024 through 2025. Overall, while services are the growth driver, inflationary impacts remain pronounced among many subsectors.

Wholesale and retail trade sub-sector accounts for about 16 percent of the country's GDP, hence its significant contribution (Umar, Alasan, & Mohammed, 2020). The accompanying inflation from subsidy removal exerted negative pressure by causing retail prices to surge. This dampens demand in the sector because households' real income had already been stunted by increases in the general price level. Sales volumes responded by dropping sharply, and the effect was significant in the informal markets where most SMEs belong. While it is noted that the policy favored and boosted digital retail efficiency and inflation moderation by the CBN, easing the strain, persistent high costs still overshadow growth, keeping it below the pre-2023 level (Ozigbu & Ezekwe, 2025). The real sector still requires more attention as the implemented policy and the associated inflation have caused net negative effects through elevated costs, reduced demand, and output contractions. It is evident that to mitigate hardship and the inequality gap, inclusive recovery of the sector hinges on targeted supply-side boosts and safety net interventions.

The agriculture and manufacturing sectors, in particular, need to be transformed into export processing sectors, with an initial focus on high-potential states.

2. FX AND THE NAIRA VOLATILITY – THE FREE MARKET EFFECT

Nigeria's foreign exchange market experienced a short-lived disruption due to inflationary pressures and increased demand for foreign currency to import refined petroleum products. This led to a drain on the country's external reserves, creating a significant gap between official and parallel market rates. By the end of 2023, the Naira weakened further, trading at a low value of ₦1,600/$ (Bashir, Aderibigbe, & Ogunmefun, 2025; PwC, 2025). The depreciation's ripple effect was felt in the FX market through reduced investor confidence and higher costs of imported essentials. Currently, the exchange rate hovers around ₦1,500/₦1,600 to a dollar, but the legacy of depreciation persists. The market-determined floating regime introduced by the government caused short-term instability but created pathways for enduring market-driven adjustments. FX liquidity improvements increased inflows from remittances and diaspora bonds through interventions like clearing $7 billion in legacy arrears to airlines. Investor confidence is gradually returning, with over $1 billion in portfolio inflows in the first quarter of 2025.

While recent FX market experience suggests a continued clearing of backlogs with the introduction of a funded stabilization mechanism, the prioritization of phased market pricing of refined products needs to be considered. Reinstatement of subsidies, whether partial or in any form, should be disallowed to prevent fiscal target deviations. Encouragement of non-oil exports from the real sectors through incentives is a further avenue to diversify FX inflows. Additionally, influence on the country's foreign exchange market will be largely reduced when fuel import corruption is checked. This can be achieved by ensuring the emergence of more local refineries while encouraging full-capacity operation of existing ones.

3. MONETARY-FISCAL POLICY REFORM MIX

Since the inception of the current government, the Central Bank of Nigeria, which is the monetary coordinating body, and the Ministry of Finance, which regulates the national fiscal affairs, have synchronized policies towards stabilizing the foreign exchange market while monitoring inflationary outcomes and fiscal strategies to free up resources and contract debt pressures. This portrays an improvement in policy transmission. Table 2 presents the major monetary-fiscal reforms and their coordination between 2023 and 2025.

Table 2. Major Monetary - Fiscal Reforms and Coordination, 2023-2025.

Period	Fiscal reforms	Monetary reforms	Control highlights/Outcomes
May/June 2023	1.) Fuel subsidy removal saves about ₦7 trillion p.a. (2.) Budget expansion and reallocations to infrastructure and social programs.	1.) Foreign exchange rate unification to a single market-determined rate. (2.) Clearance of over $7 billion foreign exchange backlog.	1.) Reduction in fiscal leakages. (2.) Boost in FX liquidity. (3.) Initial depreciation of the naira by about 70 percent, with a narrowed parallel market premium from 100 to less than 20 percent. (4.) Surge in inflation to 34%, but it later subsides.
Q3–Q4 2023	1.) Enhanced revenue targets to commence from the 2024 budget, focusing on non-oil sources. 2.) Launch of the tax reform committee.	1.) Inflation targeting framework. (2.) Rise in MPR to 18.75 percent to counter inflation.	1.) Alignment of fiscal savings with monetary tightening. 2.) Increased reserve ratio to $33 billion by the end of 2023. 3.) Stability support amid global shocks.

Period	Fiscal reforms	Monetary reforms	Control highlights/Outcomes
2024	1.) Cash transfer to 15 million households from subsidy savings. 2.) Debt management via Eurobonds.	1.) MPR was further raised to 26.25 percent to tame inflation. (2.) Targeted FX interventions to control volatility.	1.) Reduction of inflation to less than 30 percent by Q4 through tight coordination. 2.) GDP growth at 3.7 percent. 3.) High debt of over ₦120 trillion strains fiscal-monetary balance.
H1 2025	1.) Landmark tax reforms formulation in mid-2025 with streamlined administration and VAT adjustments. 2.) Rebasement of GDP to ₦372.8 trillion base year.	1.) Retention of MPR at 27.5 percent. 2.) Liquidity enhancement measures to stabilize the naira.	1.) Rise in revenue by 30% from the previous year. (2.) Capital inflows rose by almost 70 percent to $5.64 billion in Q1. (2.) Drop in inflation to 21.9 percent. (3.) 3.13 percent output growth recorded in Q1.
Q3–Q4 2025	1.) 2025 budget deficit financed through a $2.35 billion Eurobond. 2.) Spending targeted toward the poor.	1.) MPR remained tightened. (2.) Reserves exceed $40 billion.	1.) Nigeria's outlook was upgraded to "positive" by S&P in Q3. 2.) Projected growth ranges between 3.4% and 4.1%. 3.) The inflation rate is about 21 percent.

Source: IMF (2025); World Bank (2025a); Central Bank of Nigeria (2025); National Bureau of Statistics (2024); Debt Management Office (DMO) (2025); World Bank Group (2023); S&P Global Ratings (2025) and Budget Office of the Federation (2025).

By and large, the reform mix has earned praise from the IMF and other global institutions but faces backlash within the country. The policy mix risks uneven recovery as it trails in debt sustainability and job creation. With over $1 billion in portfolio inflow attracted, thus averting fiscal gridlock, the policy coordination may have enhanced credibility (Abdullahi et al., 2025). However, more is still required to fast-track structural improvements to translate gains into livelihoods, across all without bias. Given Nigeria's current realities, easing inflation at around 21.9 percent, rising debt of approximately ₦149 trillion, oil dependency translating to 30 percent of the country's revenues, high poverty level of over 40 percent, and geopolitical/climate risks (World Bank, 2025a) key areas where the government reform mix may wish to further explore and deploy high-impact actions include social protection scaling, revenue diversification, and private sector enablement.

Prudent redirection of resources toward infrastructure and human capital growth should be prioritized. In the subsequent national budget, higher spending should be redirected toward priority areas such as electricity, education, and health. This will mitigate current infrastructure deficits as non-essential spending will be low in the budget. While oil reliance should continue to be worked on, the implementation of alternative tax income reform should be balanced to account for low-income earners and small businesses. The teaming of youth unemployment and low productivity equally requires attention, and this could be addressed through a mix of skills integration programs and small business sponsorship avenues. Funds should be channeled toward skill acquisition and small businesses tied to fiscal guarantees from subsidy fund savings, and monitored by assigned finance boards to ensure a tight monetary stance and alignment.

4. RURAL HOUSEHOLDS, THE SMEs AND FINANCIAL INCLUSION IN NIGERIA

While some balances have been restored in the areas of FX liquidity, improved reserves, and naira stabilization, the mix failed to sustain the rising trend in financial inclusivity of rural households and SMEs as noted in previous years. Rural account ownership, aided by NFIS targets for underserved groups, rose to 52 percent in 2023, while SME microfinance penetration increased, with 70 percent of them reported to have access to basic services (IMF, 2024). Precisely, the general subsiding inflation tends to skew against rural households, with poverty remaining at the 2023 level. As of the current year 2025, rural inflation hit 25 percent, while food insecurity concurrently jumped. Rural households were compelled to fall on high-interest informal loan sources, which further deteriorated their

financial health. A close look at the reforms further showed that they led to high lending rates, which stifled credit to small and medium-scale enterprises. Operational costs of SMEs rose drastically to about 20 to 30 percent higher than usual, and the 27.5 percent Monetary Policy Rate (MPR) peak further forced a reduction in credit demand by almost 20 percent in 2024 (Felicia & Ogunbiyi, 2025). Presently, SMEs are still groaning under the inflation burden. Their performances have declined from the 2023/2024 level, and over 90 percent are facing viability threats. The increased rate of closure was furthered by limited access to finance (Yusuf, Suleiman, & Kawugana, 2025).

The government could explore building on existing programs to shield more vulnerable households from inflation shocks to foster consumption-led growth, funded through subsidy savings without necessarily straining revenue. This can take off with the new fiscal year 2026 and be implemented by the National Social Investment Programme through digital platforms such as BVN-linked transfers and other biometric verifications to curb leakages and ensure more coverage of beneficiaries. Integration of agricultural subsidies to boost rural incomes, addressing food insecurity amid climate vulnerabilities, should also be considered. Improvement in fiscal discipline amid high debt is important. While access has structurally progressed, in a way, resultant fuel subsidy removal economic shocks undermined functional inclusion in no small way. This has left SMEs and rural households vulnerable to volatility.

Should Naira stability hold at a fair rate while inflation simmers down, the country could have an optimistic outlook over the next couple of years. More so, financial inclusion is projected to reach over 70 percent by 2027 (FMCIDE, 2023). SMEs, on the other hand, stand a chance to witness credit growth aided by the national financial inclusion strategy and by reduced operating costs as may be caused by the reduced fuel cost. These could be achieved through leveraging the fiscal surplus created by subsidy savings and pragmatic policy coordination that ensures workable MPR while ensuring anti-corruption audits on credit disbursements. The fuel subsidy removal reform, alongside Naira devaluation and exchange rate unification, has helped to free funds directed toward sustainable development amid flooding, environmental hazards, and other climate vulnerabilities. In 2022, for instance, when Nigeria recorded damages of almost $7 billion, the majority accounted for by flooding, adequate funds could not be immediately marshaled to cater for the disaster (Ridwan et al., 2024; UNDP, 2023). While the government's green monetary tools, through the CBN, have contributed immensely to the integration of environmental resilience into economic planning, climate finance, which also benefits from subsidy savings, has actively helped to fund low-carbon transitions to the tune of almost $30 billion annual gap. Nigeria's sovereign green bond market issuance, used in funding renewables, sustainable forestry, and clean transport, reached its highest in June 2025. The growth of the investment arm promises a $3 trillion infrastructure gap by 2050 (Ushie, Demehin, Otapo, & Dare, 2025).

Further, the Pay-as-you-go (PAYG) off-grid solar model closes the inaccessibility to electricity and reduces the gap from 60 percent, decreasing import reliance. Rural access has also improved. To meet international requirements, the Climate Change Act of 2021 and the Nationally Determined Contributions of 2024 incorporated finance into the country's National Development Plan 2021–2025 (Ukwe, 2025). To go further from here, the government needs to further utilize and scale avenues such as the National Council on Climate Change (NCCC) led audits, improving the green bond bank rollout in subsequent years by the CBN and the debt-for-development IMF swaps, to foster inclusive resilience.

5. eNAIRA – ADOPTION INERTIA AND REGULATORY CHALLENGES

The eNaira launched in October 2021 is a relevant policy approach to reduce transaction costs, promote efficient payments, extend services to the rural population/SMEs, and enhance financial inclusion for over 30 percent of unbanked adults while also reducing remittance costs (Ozili, 2023). However, the policy has seen a low level of adoption despite ongoing reforms. Throughout 2023, when the initiative was launched and the campaign was active, about 13 million wallets, representing less than 1 percent of the Nigerian adult population, were created. By 2024, virtual currency accounted for less than 1 percent of the total currency in circulation. Transaction volumes are

relatively negligible compared to fiat transactions, and almost all created wallets are dormant. The 0.5 percent adoption level recorded by the International Monetary Fund (2023) has not improved.

Further, Nigeria's eNaira faces stiff competition from crypto alternatives. Around the time Nigeria launched its CBDC, over $1 billion in Bitcoin was traded by Nigerians via peer-to-peer platforms, surpassing eNaira's less than $10 million in transactions (Chukwuere, 2021). Benefits such as smart contracts and competing stablecoins offered by blockchain technology, which underpins cryptocurrency, are not provided by the eNaira. Most importantly, the decentralized nature of blockchain offers security and secrecy to asset owners, unlike the centralized eNaira, where all transactions can be recorded and tracked. While the October 2025 policy revival through the formation of a task force by the CBN may attempt to address these challenges, it is important to emphasize that, given the feature of the eNaira as a centralized digital currency that exposes users' finances even more than fiat currency, its adoption is likely to be delayed.

6. THEORETICAL EXCERPT

Subsidy as a tool of economic reform has divergent opinions. Subsidies are either viewed as interventions that stimulate growth by addressing market failures or hinder it by creating distortions, inefficiencies, and fiscal strain. While Paul Romer's endogenous growth theory in 1986 rooted for subsidies as a means for innovation, Joseph Stiglitz's justification for the corrective potentials of subsidies in his discourse on market failures (Stiglitz, 1989). Adam Smith, a classical critic, countered the consideration for subsidies, given that it distorts trade (Smith, 1776). Endogenous growth models posit that improvement of research and development or infrastructure through targeted subsidies tends to enhance productivity over time. Careless implementation, such as broad consumption subsidies like fuel, can cause indulgence and lead to overconsumption, resource misallocation, and opportunity costs, as funds are channeled away from sustainable growth investments. Before the fuel subsidy was discontinued in Nigeria, it cost over ₦4 trillion in 2022 alone (Bashir & Raheem, 2024; Idrees, Rabi, & Nura, 2024). Many growth and development investments were deprived of funds, and distortions such as strained budgets, moribund refineries, and smuggling grew and flourished. This conforms to the apprehension of the classical school that discouraged subsidy regimes. Hence, removal aligns with such theories that favor subsidy rationalization for growth, potentially boosting GDP by redirecting savings to infrastructure or outright subsidy discouragement. While the beginning of the new subsidy-free era led to higher production costs and reduced economic activity, the policy has the potential to propel growth if the saved revenue is used to fund productive sectors.

Generally, inflation theories the quantity theory, which originated in the 16th century and was later modernized by Fisher (1911) and Friedman (1956), the John Maynard Keynes demand-pull, and cost-push inflation theory (Keynes, 1930) arise to explain excessive growth in money supply and the attendant expectations. In the wake of the removal, Keynesian cost-push inflation is particularly relevant to Nigeria's subsidy reforms, highlighting how supply-side shocks increase production costs in the country. The shortages experienced, caused by panic-buying when the announcement was first made, align with demand-pull elements. Evidently, subsidy removal led to cost-push inflation, with higher fuel prices initially raising transportation and energy costs, cascading into food, utilities, and goods inflation. In the first year, headline inflation had already jumped to 30 percent (Alexander, 2024). Nigeria may be said to have indirectly experienced the quantity theory, given the devaluation of the naira and loose fiscal policy, which amplified monetary pressures. The ongoing foreign exchange volatility illustrates that subsidy removal, without adequate mitigating measures, powers inflationary spirals, eroding real incomes.

The theory of shock therapy, conceptualized in the 1980s, traces back to Jeffrey Sachs. Its initial applications date back to the early 1990s in Poland and Russia. The theory explains a typical rapid overhaul of an economy, involving deregulation, privatization, and abrupt removal of price controls or subsidies to transition to a free-market system (Marangos, 2002). The emphasis on rapid implementation of the removal of the intervention policy is predicated on the aim to prevent sudden policy reversal and minimize the accompanying transitional pain. However, the theory

acknowledges the tendencies to cause short-term economic discomfort, like unemployment and inflation. This, in relation to Nigeria's post-subsidy era, reflects fuel subsidy removal in the shock therapy principal context, where the distortive fiscal burden, running into trillions of Naira, was suddenly eliminated to allow for resource reallocation toward real productive investments. The instantaneous hike in fuel prices triggered inflationary strain and reduced household purchasing power, thus worsening multidimensional poverty, mirroring the therapy's downsides. The arguments of proponents that long-term growth would result after reducing fiscal deficits may be said to have been gradually coming to fruition. Nigeria has gradually started to realize fiscal relief, specifically in the increased federal account allocation (FAAC) to states (NBS, 2024). Despite this, the amplified social cost in the country indicates that shock therapy is incompletely implemented and has led to a prolonged recession.

7. FUEL SUBSIDY REMOVAL - THE INDONESIAN EXPERIENCE

It is a common practice for nations to explore avenues to block leakages and make funds available for growth investments. A comparable case is thus found in President J. Widodo's government of Indonesia (Yusuf, Patunru, & Resosudarmo, 2017). Indonesia was heavily reliant on fuel subsidies, which drained its budget up to the tune of 20 percent of its annual expenditure. As part of broader economic reform moves, the government was compelled to remove fuel subsidies between 2014 and 2015. As in Nigeria, the removal led to fuel prices doubling, inflation spikes, and nationwide protests. The increased living costs, rising poverty levels, and slowed short-term economic growth mirrored Nigeria's current experience. In the short term, the pressure was confronted with cash transfers to poor households, while long-term growth strategies include savings reallocation to infrastructure, education, and health (Ezuem & Agada, 2024; Yunusa et al., 2023). While both countries faced initial unrest following implementation, Indonesia recorded a successful transition through gradual phasing of the policy, adequate provision for the vulnerable, transparent, prudent revenue use, and tightening of loose ends to block leakages. Currently, Nigeria shows signs of being on the right track, given its economic outlook, indicating its emulation of Indonesia's approach. However, the inflation grip suggests that the reform has yet to complete its cycle.

8. CONCLUSION AND RECOMMENDATIONS

While the reform has undoubtedly recorded appreciable success, an additional 4 million Nigerians have been impoverished. This has increased the poverty level from 129 million people in the pre-removal era to about 133 million Nigerians (National Bureau of Statistics, 2022). Practical policy recommendations emphasize targeted interventions and phased reforms to harness long-term benefits. To see this through, several other harsh policies should be expected. Citizens, therefore, need to persevere more as the country still has a long way to go. The recent approval of a 15% import tariff on petrol and diesel, aimed at incentivizing local refining of petroleum products and reducing import dependency, indicates that the masses still have a lot to endure. While the policy promises a boost in domestic production and outlook, the benefit comes at the cost of reduced annual consumer expenses in the country. Since the momentum has been set in motion, it would be in the country's best interest to see it to a logical conclusion. Abrupt truncation of the reforms will only drag the nation back to where it was, if not worse.

In addition to the offered suggestions in the major sections above, it is further recommended that:

i. Sustenance of the current MPR and continuous redirection of subsidy savings towards infrastructure investment and strengthened social safety nets should be ensured. This may be explored until the end of 2026 through regular joint monetary-fiscal audits to ensure prudence.

ii. Increased support to the real sector from subsidy savings through incentives and low-interest credit schemes while partnering with SMEs and rural cooperatives to enhance productivity. In addition to other monetary measures, FX volatility should also be controlled through building local refining capacity while tightening loose ends for smuggling.

iii. Scaling up social protection and financial inclusion tied to digital cash transfers to vulnerable households using BVN-linked systems. While this compels the unbanked population to be financially included, they can also be incentivized to adopt the use of the eNaira.

iv. Leveraging green bonds and climate finance avenues while incorporating environmental resilience and sustainable reforms into development plans.

v. All reforms should be implemented in phases to avoid abrupt shocks, drawing from Indonesia's gradual approach.

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