

Economic Effect of Subsidy Removal: A Case of Gasoline Subsidy in Nigeria

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The Nigerian government has recently reduced subsidy on the price of petroleum products in January, 2012 and intends to carry on with this policy in order to increase investment and output in the sector. However, with the growing stiff opposition and civil resistance to these price increases, there is need for an assessment of the effects on the economic sectors and agents. To this end, this study examines the economic effects of the removal of gasoline subsidies in Nigeria using the Input-Output SAM multiplier approach. Previous attempts to assess the economic impacts of fuel price increases have been limited by the slight attention paid to sectoral analysis which gives ambiguous results as to its micro effects. By assessing the impacts of a reference case of gasoline subsidy removal using the most recent data-set, the study adds to existing knowledge and also provides a guide for evaluating other fuels' subsidy policy in the future based on current economic structure. On the one part, the result is expected to evaluate the economic impact of the policy on the various sectors and agents of the economy and on the other hand, suggests if the result supports government policy intention of stimulating investment in the petroleum sector.