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The Impact of Fuel Increment on the Nigeria Economy.

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Abstract

Petroleum products constitute a major inputs in the production of various goods and services, consequently, changes in supply affects the cost of production and therefore price level. This has been the case even when the increase is only marginal. Therefore, the paper took a critical look at the impact of fuel price increase on the Nigeria economy. The source of Data for this paper were mainly secondary and the paper adopted the theory of price which is an economic theory whereby the price for any specific good or service is based on the relationship between supply and demand. Finding revealed that petroleum price increase result in higher transportation fare, and purchasing power, increase in cost of production and living standard of the citizens. It was also discovered that there is a significant relationship between increase in pump price of petroleum and food security. The paper therefore recommends among others that government should reduced the price of fuel to mitigate the risk associated with price hikes. There is need to vigorously pursue the revitalization of the railways. That government should strive to make the product available all times, monitor effectively the distribution channels to avoid disruption of distribution or scarcity, Consistency and efficiency of government pricing policy, the government to encourage more private participation and deregulation of the downstream sector and fight corruption as well as total market concept in the chain of petroleum product supply and distribution.

Keywords: Petroleum Price, Hike, Transportation Cost, Economy

Introduction

Nigeria is blessed with abundant natural resources of which petroleum products are important factors in her domestic economy. According to Odularu (2015), Nigeria is the eight among the world's oil producing countries. The Nigerian economy is heavily dependent on petroleum products, which account for over 95 percent of export earnings and about 85 percent of government revenues (World Bank Report, 2010). Petrol or Premium Motor Spirit (PMS), Diesel and Kerosene are the basic products used in road transport services, manufacturing industries, power generation, household cooking and private vehicles. Because of the need for this product, the oil market is subjected to the market forces of demand and supply, which do lead to the fluctuation in the pricing. Yemi (2012), viewed, changes in the price of oil as an imperative source of economic fluctuations, in which the resultant effect led to global shock, capable of affecting many economic activities instantaneously. This shock is perceived generally to have a similar impact due to events like fall in growth rate, high unemployment rate, and high inflation rate, while the magnitude and the causes of the effect of these shocks may differ. For import-based economy, hike in the oil price will lead to shock in the economy, vice versa for the export-based economy.

There are many established empirical analyses on the macroeconomic consequence of oil price shocks to net exporting countries, this is based on the dependency between oil price and the business cycle which can be explained through the impact of the oil price shocks on aggregate demand. Practitioners opined that an increase in oil price reduces aggregate supply since high energy prices mean that firms will purchase less energy. As a consequence, the productivity of any given volume of capital and labor will decline and leads to potential output loss. This invariably will lead to a decline in factors of production and real wages (Ibrahim & Unom, 2011).

All other sectors seemed to have gone into oblivion and indeed were abandoned thereby making the country to be totally dependent on oil for her foreign exchange earnings; not agriculture any more. All effort made since then to diversify the economy of the country have come to naught. Expectedly the narrowing of the economy to a monolithic export commodity has its attendant drawback as oil by virtue of its importance to the economics of nations has inevitably become a subject of political manipulation. But the greater danger for Nigeria is that as a sole commodity of the nation and the inherent total dependency on oil has made the country's economy revolve around it. Virtually all essential service rendered in the country revolves it. Almost all other sectors of the economy depend on oil. Any contemplation therefore of a possible scarcity or unavailability of the product will no doubt spell doom for the economy of the country (Sikkam, 2013).

Oil price have witness profound fluctuations and this has implication for the performance of the micro economic variables posing great challenges for policy making. The transmission mechanism which oil price have impact on real economic activities include both supply and demand channels. The supply sight effect are related to the fact that crude oil is a basic input to production and consequently an increase in oil price leads to a rise in production cost, transportation and purchasing power. Oil price have increase on average from US$40 per barrel in 2011 to US$85 per barrel in 2016. An increase in petroleum price tends to have a contractionary impact on the price of goods and services in any given nation.

The frequent and incessant price changes (price hike) of petroleum product in Nigeria have been a source of worry. As observed by Olorunfemi (2010) that successive Nigeria governments increased fuel price more than necessary and when price were adjusted it goes a long way to affect the lives of Nigerians citizens negatively. In spite of the four refinery situated in Port Harcourt, Warri, and Kaduna and storage depots strategically located at different parts of the country, yet many Nigerian still experience fuel hikes, the economic and administrative life of the nation becomes disturbed and almost disrupted. The price of food stuff skyrocketed as transportation fare rose, farmers have to suffered in transporting their goods to the market.

It is against this background that this paper seeks to examine the impact of the increase in oil price on Nigeria economy and its consequences on the citizenry. Following this introduction the remaining part of the paper is organized as follows: Section two covers the review of empirical literature and theoretical underpinning. Section three present the historical over view of petroleum products pricing in Nigeria from 1973 to 2016. Section four covers the effect of price increments of petroleum products on Nigeria economy. While section five looked at the impact of fuel price increase on purchasing power and section six deals with the negative impact of oil price increase on Nigeria economy and the paper concludes with conclusion and recommendations. Before this, however, we provide a brief overview on the conceptual on what the term entails.

Conceptual Issues

Price increase/changes

The price changes for purchasing petroleum products in Zaria Metropolis. The income used to purchase petroleum products at a different price depend on prevailing period and time, the price changes took place since when petroleum products was discovered in Nigeria and however, which have multiplier effect on household welfare (Onwioduoki & Adenuga, 2015). In order to measure the determinants of price changes questionnaire was administered with specified questions asking the responding individual the state level at which they purchase the petroleum products under study per week or month in an average.

Petroleum products

It can also be defined as those commodity produced from the processing of crude oil and other liquids at petroleum refineries, from the extraction of liquid hydrocarbons at natural gas processing plants, and from the production of finished petroleum products at blending facilities. The majority of petroleum is converted to petroleum products, which includes several classes of fuels such as Premium Motor Spirit (PMS), Dual Purpose Kerosene (DPK) and Liquefied Petroleum Gas (LPG).According to the composition of the crude oil and depending on the demands of the market, refineries can produce different shares of petroleum products (Moses, 2007).

Standard of Living

Is how well or how poorly a person or group of people live in terms of having their needs and wants met, and also the level of wealth, comfort, material goods and necessities available to a certain socioeconomics class in a certain geographical area (Sanusi, 2016).

Review of Empirical Literature and theoretical underpinning

Petroleum products play a critical role in the economic development of Nigeria. Premium Motor Spirit (PMC) or petrol serves as an intermediate input to production, and thus changes in its price, quantity or quality affect the profitability of production and productivity of other factors of production. Given the role of fuel in the economy, most governments in Africa-especially Nigeria-intervene extensively in the oil market. The relationship between petrol price changes (price hike) and distribution in Nigeria is an area that was not given direct attention by scholars. Nevertheless, many authors researched on several related topics and came up with different findings. For instance, Sulaimon (2014) in his paper entitled: "The Relationship among petroleum prices" evaluates in a multivariate framework the relationship among the spot prices of fuel, gasoline, heating oil and diesel. The author examined the relationship among the petrol prices with focus on assessing whether or not the direction of price information flow was predicated on derived demand theory. The econometric results provided strong evidence that the price of oil and its refinery products are co integrated. The author argued that in terms of long run adjustment, the oil price is found to be weakly exogenous and many factors are responsible for the adjustment towards the long-run equilibrium. Ehinomeri and Adeleke (2012) shared their views that the distribution of petroleum products in the Nigerian economy is fraught with complex problems resulting sometimes in products outages, inflated price of products and contentions on the pump price of products. Their research examines the various issues regarding the distribution of products and recommends that the downstream activities of the industry be completely deregulated to allow private sector and entrepreneur's full participations in the distribution of the products. Their findings hypothesized that the participation of entrepreneurs will drive effectiveness into the sector.

Effectiveness according to them will bring down cost of operations with the consequence reduction of price of products for the benefit of all the stake-holders in the country. Arenze (2011) asserted that upward adjustment of petroleum products prices have resulted in inflation, high cost of living and inequitable distribution of income in Nigeria. The author observed that between 1978 to 2016, the various Nigerian regimes increased fuel prices a total of more than 20 times. Most of the increase occurred in the 1990-2016 period. He examined the economic impact of price instability and identified the causes of increase in prices of oil products, using simple regression analysis of data to find out the relationship between dependent and independent variables. The study revealed that whenever petroleum prices increase, the inflation rate also increases. The explanation of their research was that the relationship between the inflation and the price of petrol is significant. Ougunbodede, Ilesanmi and Olurankinsa (2010) posit that incessant price hike of petroleum products have led to crisis and industrial actions led by some pressure groups in Nigeria. Based on this problem, their research examine petroleum Motor Spirit pricing crisis and the Nigerian public passenger transportation system. They used perception scale on a 4-point Likert scale to elicit response from the operators of public passenger transport system. The Mean Weight Value (MWV) was calculated from the ranking of the perception scale. The results of these MWV were compared with the Group Arithmetic Mean (GAM) of each group to determine whether to accept or reject a problem item as being a reflection of the thinking of the majority for taking a decision.

The results from that study indicated that price increase in PMC have increased transport fare, led to hoarding of fuel and many other related problems too numerous to list here. The study suggested that further research in related areas be carried out to identify more problems that exerted a lot of hardship on the people and the economy of the country to the extent that the poor were the worst hit. Many scholars in the past have talk extensively on the issue of incessant effect of price changes on petroleum product in Nigeria but most of them have failed to capture its effect on all the macro-economic variables, Raymond (2010) look at the effect of price changes of petroleum product in the short and long run and the factors responsible for the changes itself, he failed to realize that both the short and long run if taken as a variable is a function on its own, as they will reflect as an independent variable which its efficacy will be a function of dependent variable i.e. price changes. Ehinomeri and Adeleke (2012), study the causes of fuel shortage in Nigeria and how it can be resolved but it only proffer recommendations on how the issue can be resolved base on the economic situation of Nigeria as at the time of the research, he failed to look at it from he futuristic point of view, though the recommendations if properly applied in the onomy as at the time of the study will work but it will fail to last long as the policy on ude-oil sale especially the deregulation of the downstream sectors and the removal of fuel ubsidy will generate other problems which the study did not cover. Arinze (2011), work on the effect of price changes of petroleum products in Nigeria taken into consideration inflation, high cost of living and equitable distribution of income as the is resulting effects and variable, but the study fail to capture unemployment, poverty, Gross domestic product and other macro-economic variables. Ogunbodedi, Ilesanmi and Olurankinsa (2012), only limit their work to price hike of petroleum products crisis and transportation system but the present study investigate the effects of price changes of petroleum products taken into consideration all the macro-economic variables like inflation, unemployment, poverty, petroleum distribution, gross domestic products and the resulting effect on the standard of living which no previous study have captured.

Theoretical Framework (economic theory of price)

This paper adopts economic theory of price as its tool of analysis. The theory is postulated by Leftwich in 1976; price theory is concerned with the flow of goods and services from business firms to consumers, the composition of the flow, and the evaluation or pricing of the component parts of the flow.

The theory of price is an economic theory whereby the price for any specific good or service is based on the relationship between supply and demand. The theory of price posits that the point at which the benefit gained from those who demand the entity meets the seller's marginal costs is the most optimal market price for the good or service. The theory is also concerned with the flow of productive resources (or their services) from resource owners to business firms, with their evaluation, and with their allocation among alternative uses." Every individual is interested in prices; and rightly so. Everyone whether he is a consumer or a producer is affected by rise or fall in prices. A consumer is anxious to find out whether the goods he wants to buy have become cheaper or dearer. Similarly, producer is interested in whether the prices of the products he produces and the inputs he uses, have gone up or down. Adam Smith, Marx, Jevons and Marshall to Joan Robinson, Chamberlin and Hicks have been engaged in explaining how prices are determined and why and when they are high or low. This is the Subject matter of price theory (Leftwich, 1976).

Central Trust of Price Theory

- The optimal market price, or equilibrium, is the point at which the number of items available, the supply, can be reasonably consumed by potential customers.
- As market conditions change, the optimal price will change.
- At any time, there is only a certain supply of goods available. Supply may be affected by the availability of raw materials, for example.
- Demand may fluctuate depending on competitor products, an item's perceived value, or its affordability to the consumer market.

The theory of price, or price theory, is a microeconomic principle that uses the concept of supply and demand to determine the appropriate price point for a good or service. The goal is to achieve the equilibrium where the quantity of the goods or services provided match the demand of the corresponding market and its ability to acquire the good or service. The concept allows for price adjustments as market conditions change (Leftwich, 1976).

For example, suppose that market forces determine that a price of petroleum is ₦ 200. A buyer is, therefore, willing to forgot the utility in to possess the product at ₦200, and the seller perceives that ₦200 is a fair price for the product. This simple theory of determining prices is one of the core principles underlying economic theory. In essence the higher the price of any product the lower the quantity demanded. So, if the price of petroleum product in Nigeria keep on increasing day by day it affect the purchasing power of the citizens more so, the price of goods and services.

Supply denotes the number of products or services the market can provide including tangible goods such as petroleum product, or intangible goods, such as the ability to make an appointment with a skilled service provider. In each instance, the available supply is finite in nature. Demand applies to the market's desire for the item, be it tangible or intangible. At any time, there is also only a finite number of potential consumers available. Demand may fluctuate depending on a variety of factors such as whether an improved version of a product is available or if a service is no longer needed. Demand can also be impacted by an item's perceived value, or affordability, by the consumer market.

Historical Overview of Petroleum Products Pricing in Nigeria

Nigeria is a nation endowed with abundant human and material resources. In the early 1950's and at independence, Agriculture was the chief foreign exchange earner of this nation. Other mineral deposits like coal, Tin and agricultural resources, examples rubber, cotton etc, were explored, while their proceeds used to support the governmental expenses. Immediately crude oil deposit was discovered in (1956) at Olobiri Delta state, attention was then diverted to oil exploration and exportation. As a result of this, huge foreign exchange earnings and reserve rose to unprecedented promising level. Soon after, other variable areas of reserve earning were abandoned. Fuel now became the determinant of our economic transactions with the rest of the world. Nowadays, the economy of the country depends mainly on crude oil.

The history of petroleum pricing in Nigeria is a long one particularly with the negative effects ithas on the polity. Specifically the story dates back to 1978 when the then military government of Gen. Olusegun Obasanjo reviewed upward the pump price of fuel which was at 8.4 kobo to 15.37 kobo. The concern was for government to generate enough money to run the administration particularly when it was preparing for the 1979 democratic elections and also to carter for the social needs of Nigerians (Akujobi, 2015).

Moreover, Gen. Olusegun Obasanjo second coming as a civilian president did not help matters as he unleashed a reign of terror on Nigerians. In his eight years reign, the nation witnessed several rounds of fuel price increases. The first started on 1st June, 2000, where the petrol price per litre was raised to ₦30.00 but only to be reduced to ₦25 one week after due to massive protests by organized labour, civil society organizations and the ordinary Nigerians. Five days later, on 13th June, 2000, the pump price was further adjusted to ₦22.00 per litre. On 1st January, 2002, Obasanjo regime increased the price from ₦22.00 to ₦26.00 and to ₦40.00on 23rd June, 2003 just one year after. In June, 2007, also the same 'egime raised the price of fuel per litre to ₦70, and later to over ₦100 per liter (Akujobi, !015).

In a statement delivered by Dr.Kachikwu, on May, 2016, it is on record that when the late President Umaru MusaYar'Adua assumed office in May 2007, the Nigeria Labour Congress (NLC) resisted the increase and forced him to revert to ₦65 per litre. In January, 2012, the government of former President Goodluck Jonathan attempted to remove the acclaimed subsidy but this was stoutly resisted and the commodity which was billed to sell for ₦97 per litre was later pegged to ₦87 per litre (Akujobi, 2015). It can be stated that, during President Buhari's administration in 2015 to present, Nigerians have been asked to buy the product at a peak price of ₦145 per litre.In this directive Government said it decision in this regard is informed by the fact that despite the decline in the price of crude oil in the international market, marketers are finding it increasingly difficult importing refined petroleum products due to scarcity of foreign exchange (Vanguard May 25, 2016).

TABLE: 1 SUMMARY OF PETROLEUM PUMP PRICE INCREMENT IN NIGERIA FROM 1973 - 2016

S/N	Year	Administration	Price	Price Increase	Percentage Increase
1	1973	Gen. Yakubu Gowon	6k to 8.45k	0.408	40.8
2	1976	Gen. MurtalaMuhammed	8.45 to 9k	0.065	6.5

3	1st Oct, 1978	Gen. OlusegunObasanjo (as Military)	9k to 15.3k	0.7	70
4	20th April, 1982	Alh. ShehuShagari	15.3k to 20k	0.307	30.7
5	31st March, 1986	Gen. Ibrahim Babangida	20k to 39.4k	0.97	97
6	10th April, 1988	Gen. Ibrahim Babangida	39.5k to 42k	0.063	6.3
7	1st January, 1989	Gen. Ibrahim Babangida	42k to 60k	0.43	43
8	Dec. 1989	Gen. Ibrahim Babangida	60k	0	0
9	6th March, 1991	Gen. Ibrahim Babangida	60k to 70k	0.167	16.7
10	8th Nov, 1993	Chief Ernest Shonekan	70k to ₦5.00k	6.143	614.3
11	22nd Nov, 1993	Gen. SaniAbacha	₦5.00k to ₦3.25k	-0.35	-35
12	2nd Oct, 1994	Gen. SaniAbacha	₦3.25k to ₦15.00k	3.616	361.6
13	4th Oct, 1994	Gen. SaniAbacha	₦15.00k to ₦11.00k	-0.267	-26.7
14	20th Dec, 1998	Gen. Abdusalam Abubakar	₦11.00k to ₦25.00k	1.273	127.3
15	6th Jan 1999	Gen. Abdusalam Abubakar	₦25.00k to ₦20.00k	-0.2	-20

16	1st June, 2000	OlusegunObasanjo (as Civilian Ruler)	₦20.00k to ₦30.00k	0.5	50
17	1st Jan,2000	OlusegunObasanjo (as Civilian Ruler)	₦30.00k to ₦22.00k	-0.267	-26.7
18	1st Jan, 2002	OlusegunObasanjo (as Civilian Ruler)	₦22.00k to ₦26.00k	0.182	18.2
19	June to Oct, 2003	OlusegunObasanjo (as Civilian Ruler)	₦26.00k to ₦42.00k	0.615	61.5
20	29th May, 2004	OlusegunObasanjo (as Civilian Ruler)	₦42.00k to ₦50.00k	0.191	19.1
21	25th August, 2004	OlusegunObasanjo (as Civilian Ruler)	₦50.00k to ₦65.00k	0.3	30
22	27th May, 2007	OlusegunObasanjo (as Civilian Ruler)	₦65.00k to ₦100.00k	0.539	53.9
23	June 2007	Alh. UmaruShehuYar'adua	₦100.00k to ₦65.00k	-0.35	-35
24	1st Jan, 2012	Dr.Goodluck Jonathan	₦65.00k to ₦97.00k	0.492	49.2
25	Jan, 2015	Dr.Goodluck Jonathan	₦97.00k to ₦87.00k	-0.103	-10.3
26	May, 2016	President Buhari	₦87.00k to ₦145.00k	0.667	66.7

27	April, 2019	President Muhammadu Buhari	N148.50	N62.00	

Sources: (Akujobi, 2015).

From thetable above, it can be argued, that the history of the increases in price of petroleum products in Nigeria can be linked to state desire to implement the world bank an IMF proposal of deregulating the economy and economy and removing government involvement in key areas of the economy and channelling same to other needing sectors like health, education and infrastructure.

Impact of Fuel Price Increases on Nigeria Economy

It is a common knowledge today that fuel scarcity worsens inflation and poverty mostly in monoeconomic country that solely depend on oil as its major source of it economy stain without not looking at the means of diversification. As such the economy will suffered so many dangers such as

i. High rate of inflation: this leads to increased spending both by government and private individuals. Fuel scarcity creates inflation in both public and private life with a consequent increase in prices of goods and services.
ii. Excessive corruption and mismanagement: Fuel crisis bring about corruption by both government and private individual. Corruption however, discourages foreign direct investment.
iii. Retardation in economic growth: It slows down the pace of economic development because of its negative impact on the socio-economic life of the people.
iv. Importation cost of fuel: It leads to huge and excessive public expenditure on importation of fuel to augment local production which in itself is an indication of an unhealthy economy resulting in accumulated balance of payments deficit of a country. The attendant consequences of this includes abandonment of several on-going economic and infrastructural development projects to meet the foreign exchange requirements for the purchase of refined petroleum products from overseas countries to augment local consumption, poverty and underdevelopment.
v. Fire disaster: During fuel scarcity, the product becomes more available in the hands of unauthorized road-side dealers (black marketers) who take undue advantage of the unfortunate situation to sell the product at exorbitant prices and engage in profiteering.

The unauthorized dealers also engage in reckless storage of this product in exposed tanks, drums and buckets roadside to extort money from members of the public. This however has resulted in several economic losses, deepening underdevelopment and poverty in our society as in some cases, the exposed tanks get exploded into flames that have burnt people's houses and vehicles and even loss of life in the process.

There is no doubt that the increase in the price of fuel by 49 per cent, from N85 to N145, by the Federal Government of Nigeria has started to trim down the purchasing power of the people, especially the poor masses, who have always been at the receiving end of every harsh economic policy introduced by government.

Cyoh (2012) has argued that an increase of such magnitude in the current Nigerian economic context is, without doubt, a process that is either inadvertently or deliberately conceived to take money away from the pockets of all Nigerian income earners, with over 70 per cent of Nigerians who live on below N360 per day, as the prime victims.In reality, anyone in this category will end up with over 50 per cent of his daily income, which is about N155 per day, inevitably dedicated to transport costs, while the remaining is expected to cater for family feeding, health, education and other social expenses.

Olorunfemi (2016) predicted that inflation rate would fluctuate between 13 and 14 per cent for most part of 2016.An investment and research firm, Renaissance Capital said it expected inflation to rise from a projected 10 per cent to between 13 and 14 per cent between January and March and average about 15 per cent for the year, 2016.It, however, said that should the government be persuaded to phase the removal of petrol subsidy as a means of easing the burden of price increases, then the increase in inflation could be lesser than 15 per cent for the year. The inflation rate had been a source of worry for the Central Bank of Nigeria, which struggled throughout 2015 to reduce the figure to a single digit rate. Nigeria's inflation rates experienced a wavy flow for most parts of 2015, from January till December 2015. Although, the National Bureau of Statistics attributed the development to the upward and downward movement in the prices of food items, it also linked the movement to increase in the price of petroleum across the country.

Inflationary figure for January 2015 was 12.1 per cent as against 11.8 per cent recorded in December 2014. This, according to the NBS, was due to hike in the price of petrol experienced across the country and increase in the prices of some household items and building materials. In the month of February, inflation declined to 11.1 per cent. As the country was trying to regain its balance, the rate yet increased to 12.8 per cent in March, the highest in the year, as a result of the major determinant, according to the monthly release by NBS. April inflation rate was put at 11.3 per cent which was slightly lower than the 12.8 recorded in March. There was a huge jump again in May from 11.3 per cent recorded earlier to 12.4 per cent. The statistical data in May revealed that the percentage increase which was higher than the corresponding level a year ago was as a result of the planting season in the country. In June, the inflation reduced to 10.2 per cent as against the corresponding month which was 12.4 per cent. All this was as a result of an increment in the price of petroleum product in 2016.

The CBN's expected single digit inflation rate (2016) was recorded for the first time in the country in July as it declined to 9.4 per cent from the June rate of 10.2 per cent. From the first single digit recorded in July, the rate also declined with 0.1 per cent as it dropped to 9.3 per cent in August. In the month of September, the inflation rate rose to 10.3 per cent as against 9.3 per cent recorded in August. The inflation rate for October 2011 rose to 10.5 per cent as against 10.3 per cent recorded in the preceding month, and was maintained at 10.5 per cent in November. The usual seasonal hike in commodity prices during Christmas was unable to push up Nigeria's inflation which rather moderated to 10.3 per cent in December 2016, slightly lower than the 10.5 per cent recorded in November.

It can be argued that the inflation rate in 2019 shoot up to at least 15 per cent, even as the CBN agreed that inflation would accelerate to 14 per cent or 15 per cent by mid-year, from 10.5 per cent in January, however, taking into account the initial fuel subsidy of 2016. As also observed that due to the removal of fuel subsidy 2016 Nigerian have witness several increase on the price of goods and services at the same time wages remain stagnant and unemployment remains a nationwide scourge. More than 70 per cent of Nigerians lack the usual or socially acceptable amount of money or material possessions needed to live a happy life. This unfortunate category of Nigerians lack material comfort and in plain language they live from hand to mouth (Umar & Umar, 2015).

The increase in the price of fuel will automatically reduce the purchasing power of Nigerians. It will increase their fears and deteriorate their health status. Food, water and housing are three important parameters to measure the values of our lives and these things have become elusive to the masses in Nigerians. With the increase from N85 per litre to N145 per liter, Nigeria is now the most expensive place to buy petrol in all oil producing nations."It is rather paradoxical that the CBN would lend support to any policy that would instigate the rate of inflation to such an oppressive level. In successful economies elsewhere, an inflation rate above four per cent is considered as socially and economically oppressive and offensive, and government policies would be recognised to have failed. Indeed, with inflationary rate of up to 15 per cent, motivation for savings becomes meaningless. Government, however, has said that a lot of the concerns about inflation were a bit exaggerated.

Forex reserves will improve because we spend so much money importing petroleum products. If our reserves don't go up, then everybody believes that the naira is going to be weaker and we will have pressure on the currency. So, the savings from fuel subsidy will increase reserves, reduce the pressure on the currency and improve our ability to contain inflation. We may even have enough reserves to strengthen the naira (CBN, 2016).

Negative Impacts of Oil price increment on Nigeria Economy

The economic effects of the price increase of fuel are numerous. However, we shall centre our analysis on price increment as it affect Nigerians and the Nigerian economy in particular.

Increase in cost of Production: increasing the price of fuelwhile at the same time devaluing the naira would result in increase in the cost of production for the few companies that are still existing. This would lead to more job losses (as the companies would be forced to down-size in order to survive) in addition to the unavoidable increase in the cost of the companies' products is the increase in the cost of providing services increasing the price of fuel would make nonsense of the proposed 2016 budget estimate because astronomical inflation arising from increase of price of fuel would not have factored into the budget. It will certainly cost much more to construct a kilometer of road or a borehole for example when price of fuel is increased. In actual fact, simple photocopying paper would cost much more as a result of an increase in the price of petroleum.

Increase in the cost of Transportation: Everybody appreciates the fact that when motorists pay more for fuel, the transport fare increases. This has been the case even when the increase is only marginal. In the particular case where the cost of fuel is expected to double, the increase in transport fare will be astronomical. This will in turn affect everything else - school fees, house rent, etc.

Increase in the price of Goods and Services: The removal of the fuel subsidy has equally affected the cost of commodities at various markets in the metropolis, even commercial motorcyclists instantly adjusted their fares as soon as the subsidy removal was announced. The prices of goods and services rose, the landlords did not hesitate as they also increase rents. Owing to this policy, they also experienced the increase of school fees, electrical tariff, hospital bills etc this means that more children will drop out of school owning to their parents inability to pay their tuition fees, more of the sick will die in the hospital or home because they are unable to afford the hospital bills or medicines as food takes priority causing untold hardship for the citizens (Bankole, 2012).

Increase in price on Small Scale Businesses: Those who depend on Petrol Motor Spirit (PMS) such as the Artisans and technicians to earn daily meal are forced to pass the cost to their customers. Otherwise, they will be forced to close shops, with the consequent implication for unemployment- one of the evils the government says subsidy removal will fight (Ugo, 2013).

More so, increase in the price of petroleum will go a long way to affect the cost of living: This is a fact we must accept and it is one reason why the implications of all policies must be rigorously scrutinized before decision is taken. For any responsible government this is enough reason to jettison the idea of fuel price increase. In the same vain an increase in the price of petroleum product will lead to devaluation of the naira which would render the salaries received by civil/public servants at all levels inadequate. The tendency is that corruption, which the government has proved incapable of fighting, would increase. This has always been the case and there is no reason why this will not happen now. Therefore, an increase in the price of petroleum product would not guarantee the construction of refineries by private companies for two reasons. First, if marketers (and this includes the companies that have been licensed to build refineries) import fuel and sell on the basis of the bogus PPPRA template when subsidy is removed, nothing will encourage them to build refineries. This is because they will make much more money through importation than they would by refining crude oil. Secondly, constructing new refineries would cost much more when fuel subsidy is removed and the naira devalued. That will also be a disincentive to building new refineries.

Conclusion

Based on the findings, the paper concludes that the economic effects, without auguring for or against the increase in the price of fuel are negative. The Government of Nigeria would have to consider these effects now or deal with it in the near future.The growth of real GDP has reduced because of the hike in the price of fuel in Nigeria. In addition, the rise in petrol price and the certainty of uneven prices across all 36 states of the federation, will add anywhere from 3 to 5 percentage points to consumer price inflation since 2016 to date.Households' income and spending have both been affected by the rise in petrol prices. More so the value of minimum wage compensation will depreciate further (assuming it is finally at N30, 000) combined with the increase in inflation. At the same time, the average household's annual spending on energy goods and services will rise by about N85, 000, and their saving rate dropped sharply.The fall in the saving rate, will erode about half of Nigeria's present middle-class citizens and further dampen the negative effects that higher prices would ordinarily have had on the economy in the short run. Consumer spending will be diminished greatly over the next few years, as citizens try to adjust and build up new savings. Paying high prices for petrol and using less of it will affect the demand for goods and services. Nigeria is known more as a consuming nation than a producing nation. The few production industries In Nigeria will face a daunting challenge to stay in business (cost of production will go up and demand will drop). The effects on demand, however, have by far the greater potential impact on GDP in the short run. In a perfect world, using less energy has only a small direct effect on production because, out of all the inputs to production (labor, structures and equipment, energy, and other raw materials), energy costs account for a relatively small share of output, but In the case of Nigeria, energy is a major share of output, as organizations have to provide for their own power inhouse, such as generators sets etc and are exposed to the market as it relates to energy prices with the subsidy gone.

The effects on demand and the consequent indirect effects on production could be a much bigger problem, because spending more on petroleum imports and the nation's poor power sector will generally reduce spending on goods and services in Nigeria while it will increase prices on virtually every good and service.

Recommendations

Based on the conclusion the following recommendations are made:

1. Government should vigorously pursue the revitalization of the railways. If only Nigerians had alternative to road transport, all this noise about fuel hiked would not have been their because most increase in transportation cause multiplier effect on goods and services, but when trains are properly functioning that would reduce cost of transportation and lead to reduction on the prices of goods and services.
2. Emphasis on alternative sources of energy such as gas, solar and hydraulic sources. The purposed liquefaction of the Nigerian national gas is a way forward. If effectively implemented the liquefied natural gas (LNG) project has many economic advantages. LNG has minimal transportation cost it is most importantly a potential source of foreign exchange reserve. And moreover, government should use monetary and fiscal measures so as to reduce the rate of inflation in the country.
3. The distribution channel of the flow of the petroleum products should be well monitored to avoid disruption of the distribution system or scarcity
4. Government should fight corruption by establishing institutions that will arrest and prosecute corrupt public office holders. The major obstacle to Nigeria's self-sufficiency in refining fuel are the cabal and cartels of public/political officials and the fuel importing syndicate that combine to frustrate any attempt to formulate and implement sustainable policies that would enable the proliferation of refineries in Nigeria. Surely it will be cheaper to refine the fuel in Nigeria and our neighbouring countries will prefer to buy from us rather than import form far-away lands.

5. The federal government as well as the state and local governments should begin to source fund from other sectors of the economy by tapping other resources in the country and stop depending on oil as the main source of revenue

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