APEX ACADEMIA PRESS
ELEGANCE ON EVERY RESEARCH

International Journal of Global Humanities and Management Insights
ISSN: 3070-6916 / Open Access / IJGHMI_Y2F2A003
Apex Academia Press / https://doi.org/10.63665/ijghmi-y2f2a003

Original Article

Fuel Subsidy Removal and the Rising Cost of Living in Nigeria: Who Bears the Burden?

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Abstract

Rising fuel prices, persistent inflation, exchange rate instability, and increasing living costs have become major economic challenges in many developing countries, especially Nigeria. The removal of fuel subsidies, although intended to reduce government spending and improve economic efficiency, has also created serious concerns about household welfare, food security, purchasing power, and the overall standard of living, while wages and incomes struggle to keep pace with rising prices. This study critically reviewed existing literature on the relationship between fuel subsidy removal, inflation, exchange rate volatility, economic welfare, and cost of living. The study adopted a critical literature review methodology because it allows for a deeper understanding of existing evidence, policy debates, theoretical arguments, and inconsistencies across previous studies. The findings revealed that fuel subsidy removal contributes significantly to inflationary pressure by increasing transportation and production costs, which are then transferred to consumers through higher prices of goods and services. Exchange rate volatility was also found to worsen inflation by increasing the cost of imported goods, fuel, and production inputs. The review further showed that rising inflation weakens household purchasing power, increases food insecurity, reduces consumption expenditure, and lowers economic welfare, particularly among low-income households, rural communities, and vulnerable populations. This study concludes that fuel subsidy removal, inflation, and exchange rate instability are closely interconnected economic forces that collectively shape household welfare and living standards. Therefore, this study recommends that governments should combine subsidy reforms with targeted social protection programs, exchange rate stabilization policies, investment in local production and energy infrastructure, and transparent management of subsidy savings.

Keywords

Fuel Subsidy Removal, Inflation, Exchange Rate Volatility, Economic Welfare, Cost of Living, Household Welfare, Purchasing Power, Food Insecurity, Exchange Rate Instability, Living Standards.

Article History

Received: 13.05.2026

Accepted: 22.05.2026

Published: 30.05.2026

1. Introduction

In recent years, many countries around the world have faced serious economic challenges linked to rising inflation, exchange rate instability, increasing fuel prices, and declining household welfare. These problems have become more severe in developing economies where a large proportion of household income is spent on food, transportation, and other basic necessities. As prices continue to rise, many families struggle to maintain their standard of living, while governments also face growing pressure to stabilize the economy and reduce poverty. One major policy issue that has attracted widespread attention is fuel subsidy removal. Fuel subsidies are government payments used to keep petroleum prices low for consumers. Although subsidies are often introduced to reduce the burden of high fuel costs on citizens, they also create major financial pressures on governments and may encourage corruption, smuggling, and inefficiency (Olujobi & Iremukhai, 2024). As a result, several countries, including Nigeria, have introduced subsidy reform policies aimed at reducing government expenditure and improving fiscal sustainability.

However, the removal of fuel subsidies has produced significant economic and social consequences. Studies have shown that fuel subsidy removal often leads to sharp increases in transportation costs, food prices, and the general cost of living (Akinlo, 2023; Raifu & Afolabi, 2024). In Nigeria, for example, the removal of fuel subsidy in 2023 triggered widespread increases in the prices of goods and services, especially food and transportation, thereby

reducing household purchasing power and worsening living conditions for many low-income families (Yahaya, 2026). Similar findings have also been reported in countries such as Indonesia, South Africa, Sierra Leone, Iran, and Zambia, where fuel price increases negatively affected household welfare and consumption patterns (Simatupang & Friyatno, 2016; Qeqe et al., 2022; Bongay & Sesay, 2025).

Inflation has also remained a major concern globally. Inflation refers to the persistent increase in the prices of goods and services over time, leading to a decline in the purchasing power of money. Several studies have confirmed that rising inflation negatively affects household consumption and welfare because families are forced to spend more on essential goods while reducing spending on other needs (Smith & Johnson, 2019; Nazir & Mir, 2025; Otu, 2022). Food inflation, in particular, has become a serious problem because food accounts for a large share of household expenditure in many developing countries. Headey and Ruel (2023) found that rising food prices increased the risk of malnutrition among children, especially in poor and rural households. Similarly, Katuka et al. (2025) reported that inflation significantly worsened food insecurity among low-income households in Nigeria.

Another important factor affecting economic welfare is exchange rate volatility. Many developing economies depend heavily on imported fuel, machinery, food items, and industrial inputs. As a result, depreciation in the value of local currencies often leads to higher import costs and rising domestic prices. Studies such as Tijani (2025), Raphael, Eggon and Moses (2024), and Sunday (2026) identified exchange rate instability as a major driver of food inflation and rising living costs in Nigeria. Similar evidence was reported in Kenya, Ethiopia, Somalia, and Lebanon, where exchange rate fluctuations negatively affected economic growth and welfare (Mohamed & Abdi, 2024; Malec et al., 2024; Sumba et al., 2024).

Despite the growing number of studies on inflation, subsidy removal, and exchange rate fluctuations, the economic conditions facing households continue to worsen in many countries. Rising fuel prices, food inflation, unemployment, and unstable exchange rates have combined to increase poverty and reduce the standard of living, especially among vulnerable populations. Low-income earners, rural households, women, and informal sector workers are often the most affected because they spend a larger share of their income on food and transportation (Olufemi-Phillips et al., 2024; Yahaya, 2026).

The problem, however, is that many previous studies examined these issues separately rather than analyzing how they interact together to influence household welfare and living conditions. Some studies focused mainly on inflation and consumption expenditure (Nazir & Mir, 2025; Otu, 2022), while others concentrated on subsidy removal and welfare (Oboro & Agbamu, 2024; Nande et al., 2025), exchange rate volatility and growth (Ogwuche et al., 2024; Audi, 2024), or food security and inflation (Headey & Ruel, 2023). Very few studies provided a broad and integrated understanding of how fuel subsidy removal, inflation, exchange rate instability, and rising living costs collectively affect economic welfare. In addition, there are inconsistencies in the literature. While many studies concluded that inflation and subsidy removal worsen poverty and reduce welfare (Abdullahi & Deng, 2025; Nande et al., 2025), some studies reported mixed or unexpected findings. For example, Tijani (2025) found that food price inflation was associated with lower poverty levels in certain cases, while Chukunalu et al. (2025) argued that some businesses were able to transfer rising costs to consumers and therefore experienced limited negative effects. These contradictions suggest that the relationship between inflation, subsidy reform, and welfare is more complex than previously assumed and may differ across countries, sectors, and income groups.

Another limitation of previous studies is their heavy dependence on econometric models such as ARDL, VAR, VECM, OLS, and NARDL. While these methods are useful for statistical analysis, they are often limited to specific countries or time periods and may not fully explain the broader social and economic realities experienced by households. Many studies also focused more on macroeconomic indicators while paying less attention to the everyday experiences of ordinary people struggling with rising living costs. This study therefore seeks to address these gaps by conducting a critical literature review on fuel subsidy removal, inflation, exchange rate volatility, economic welfare, and cost of living. The study brings together evidence from different countries and economic contexts in order to provide a broader and deeper understanding of the issues. Unlike many previous studies that focused only on one variable or one country, this study critically compares findings across the literature, identifies areas of agreement and contradiction, and explains possible reasons for differences in results.

The study also contributes to existing knowledge by connecting macroeconomic issues such as inflation and exchange rate instability with real household welfare outcomes such as food security, transportation costs, purchasing power, and living standards. By doing this, the study provides a more balanced understanding of how economic shocks and policy reforms affect households, especially in developing economies. The findings of the study are expected to support policymakers, researchers, and development practitioners in designing better economic policies and welfare interventions aimed at reducing the burden of rising living costs on vulnerable populations.

2. Literature Review

A. Conceptual Review

(a) Fuel Subsidy Removal

Fuel subsidy removal refers to the government's decision to stop or reduce financial support given to keep fuel prices artificially low. In many developing countries, especially oil-producing nations like Nigeria, governments subsidize petroleum products so citizens can buy fuel at lower prices. However, subsidy payments often place a heavy burden on government finances and may encourage corruption, smuggling, and inefficiency (Olujobi & Iremukhai, 2024). The removal of fuel subsidies usually leads to an immediate increase in fuel prices, which then affects transportation costs, production costs, and the prices of goods and services across the economy. Studies such as Akinlo (2023), Raifu and Afolabi (2024), and Yahaya (2026) observed that fuel subsidy removal in Nigeria significantly increased transportation expenses and food prices, especially among rural and low-income households. Similarly, Simatupang and Friyatno (2016) found that fuel price increases negatively affected agricultural profitability and household welfare in Indonesia.

Researchers also explain that fuel subsidy removal can produce both short-term pain and possible long-term gains. In the short run, households experience higher living costs and reduced purchasing power (Oboro & Agbamu, 2024; Nande et al., 2025). However, in the long run, governments may redirect subsidy savings toward infrastructure, education, healthcare, and other productive sectors that can improve economic growth and welfare if managed properly (Okorie & Wesseh, 2024). Despite these potential benefits, many studies stress that subsidy removal without proper social protection measures often worsens poverty and inequality. Evans et al. (2023) and Yahaya (2026) therefore recommend targeted support programs, transport subsidies, and welfare transfers to reduce the burden on vulnerable households.

(b) Inflation

Inflation refers to the persistent increase in the general prices of goods and services over time, which reduces the purchasing power of money. When inflation rises, households are able to buy fewer goods and services with the same level of income. Inflation is therefore widely considered one of the major threats to household welfare and economic stability. Several studies reviewed consistently show that inflation negatively affects household consumption, food security, and living standards. Smith and Johnson (2019), Nazir and Mir (2025), and Otu (2022) all found that rising inflation reduces household consumption expenditure because families cut back on spending when prices become too high. Similarly, Ghasemi and Jalali (2023) observed that inflation widened the welfare gap between urban and rural households in Iran.

Food inflation has received particular attention because food accounts for a large share of household spending in developing economies. Headey and Ruel (2023) showed that increases in food prices significantly increased child malnutrition risks in developing countries. Likewise, Katuka, Magaji and Musa (2025) found that inflation strongly increased food insecurity among low-income households in Nigeria. Inflation can also affect economic growth negatively. Studies by Mohamed and Abdi (2024), Malec et al. (2024), and Maiga (2024) all concluded that high inflation weakens economic growth because it discourages investment, reduces real income, and creates uncertainty in the economy. However, some studies argue that moderate inflation may temporarily stimulate certain economic activities or business profits under specific conditions (Chukunalu et al., 2025).

(c) Exchange Rate Volatility

Exchange rate volatility refers to frequent or unpredictable changes in the value of one country's currency relative to foreign currencies. In economies that depend heavily on imports, exchange rate fluctuations can strongly influence domestic prices, inflation, and economic welfare. In Nigeria, many studies identified exchange rate

depreciation as a major driver of inflation and rising living costs. Tijani (2025) and Raphael, Eggon and Moses (2024) found that exchange rate instability significantly worsened food price inflation because imported food items, fuel, and agricultural inputs became more expensive. Similarly, Sunday (2026) reported that exchange rate shocks had the strongest and most persistent effect on inflation in Nigeria.

Studies conducted outside Nigeria support similar conclusions. Sumba, Nyabuto and Mugambi (2024) found that exchange rate depreciation in Kenya increased inflationary pressure and negatively affected economic growth. Olorunfemi et al. (2024) also showed that exchange rate misalignment hindered long-term economic growth. However, some studies present mixed findings. Audi (2024) discovered that exchange rate volatility negatively affected economic growth in the short run in Lebanon, but showed positive long-run effects. This suggests that exchange rate movements may sometimes improve export competitiveness over time if the economy adjusts properly. Most researchers nevertheless agree that excessive exchange rate volatility creates uncertainty, raises production costs, fuels inflation, and reduces household welfare, especially in import-dependent economies.

(d) Economic Welfare

Economic welfare refers to the overall well-being and quality of life of individuals or households in terms of income, consumption, access to basic needs, and living conditions. It reflects whether people can afford food, healthcare, housing, transportation, education, and other necessities required for a decent standard of living. Many of the reviewed studies measure economic welfare using indicators such as household consumption, purchasing power, food security, income levels, and poverty rates. Studies consistently show that inflation, fuel price increases, and exchange rate instability negatively affect economic welfare. For example, Okorie and Wesseh (2024) found that removing fossil fuel subsidies increased inflation and reduced economic welfare in Nigeria. Similarly, Abubakar et al. (2025) reported that most households experienced higher living costs and declining purchasing power after subsidy removal. Abdullahi and Deng (2025) also found that inflation significantly reduced household welfare and human development outcomes in South Sudan.

Economic welfare is closely linked to employment and income stability. Tijani (2025) identified unemployment as a major contributor to poverty in Nigeria, while Munir et al. (2026) found that higher income and education levels positively improved household consumption and welfare. Some studies also emphasize that welfare effects are not equally distributed. Low-income households, rural residents, women, and vulnerable groups tend to suffer the most during inflationary periods or subsidy reforms because they spend a larger share of their income on food and transportation (Olufemi-Phillips et al., 2024; Yahaya, 2026). In summary, the literature suggests that economic welfare improves when households have stable income, affordable prices, access to essential goods, and supportive government policies.

(e) Cost/Standard of Living

Cost of living refers to the amount of money needed to maintain a certain level of living, including expenses related to food, transportation, housing, healthcare, education, and utilities. Standard of living, on the other hand, describes the quality and comfort of life enjoyed by individuals or households based on their income and access to necessities. The reviewed studies strongly connect rising inflation and fuel prices with increasing cost of living. Akinlo (2023) documented a 250 percent increase in transportation costs after fuel subsidy removal in Nigeria, which significantly reduced household purchasing power. Likewise, Yahaya (2026) found that subsidy removal caused a major rise in household living costs, especially among rural and low-income populations.

Studies from other countries show similar patterns. Qeqe, Kapingura and Mgxekwa (2022) found that rising electricity prices in South Africa increased household energy costs and reduced spending on food and other basic needs. Bongay and Sesay (2025) also reported that fuel price increases in Sierra Leone raised food prices and worsened household poverty. Inflation tends to force households to adjust their lifestyles and spending behavior. Munyeke and Silwimba (2025) found that households in Zambia coped with inflation by reducing non-essential spending, substituting expensive foods with cheaper alternatives, and diversifying income sources. Jones and Peters (2020) similarly observed that lower-income households in Europe reduced food expenditure more significantly during periods of food inflation.

The literature therefore suggests that persistent inflation, rising fuel prices, and unstable exchange rates collectively increase the cost of living and lower the standard of living, particularly for economically vulnerable households. Governments are therefore encouraged to implement policies that stabilize prices, improve incomes, strengthen social protection systems, and support domestic production to protect household welfare.

B. Review of Related Studies

The growing body of literature on inflation, food prices, fuel subsidy removal, exchange rate fluctuations, and household welfare shows that these economic issues are deeply interconnected. Across many countries, researchers generally agree that rising inflation and fuel-related price shocks reduce household welfare, weaken purchasing power, worsen food insecurity, and increase the cost of living. However, some studies also reveal mixed or contradictory outcomes depending on the country, income level, policy environment, and household coping capacity.

A major area of agreement across the studies is that inflation significantly affects household welfare through rising food prices and declining purchasing power. Studies conducted in Nigeria, Zambia, South Sudan, Ethiopia, Bangladesh, Ghana, Somalia, Tanzania, and India consistently show that inflation reduces household consumption and worsens living conditions. For instance, Tijani (2025), Katuka et al. (2025), and Olufemi-Phillips et al. (2024) all found that food inflation directly contributes to food insecurity, especially among low-income households. Similar conclusions were reached by Nazir and Mir (2025), Otu (2022), and Munir et al. (2026), who observed that inflation negatively affects household consumption expenditure because households are forced to spend more on basic necessities while reducing spending on other needs.

This pattern is not limited to Africa alone. Smith and Johnson (2019) in the United States, Jones and Peters (2020) in Europe, and Gafurdjan (2024) similarly reported that inflation reduces consumer spending, particularly among poorer households. Jones and Peters (2020) further emphasized that low-income households react more strongly to food inflation than wealthier households, highlighting the unequal burden of inflation. These findings align with Michel (2020), who reported high elasticity of food expenditure in Sub-Saharan Africa, especially in urban and low-income settings. Together, these studies strongly suggest that inflation disproportionately affects vulnerable groups because food and transportation consume a larger share of their incomes.

Another strong consensus in the literature is the close relationship between exchange rate depreciation and inflation. Several studies identify exchange rate instability as one of the strongest drivers of food price inflation and economic hardship. Tijani (2025), Raphael et al. (2024), Chileya et al. (2024), Sunday (2026), and Onwioduokit et al. (2026) all found that exchange rate depreciation increases inflationary pressures by making imports more expensive, particularly food, fuel, and agricultural inputs. This creates a ripple effect across transportation, production, and household consumption.

Similarly, studies from Kenya, Lebanon, Ethiopia, Somalia, Tanzania, and Nigeria confirm that exchange rate volatility negatively affects economic growth and welfare (Mohamed & Abdi, 2024; Malec et al., 2024; Maiga, 2024; Sumba et al., 2024). However, some contradiction exists in the literature. For example, Audi (2024) found that exchange rate volatility had a positive long-run effect on economic growth in Lebanon, although the short-run effect remained negative. Likewise, Akinola et al. (2024) observed that exchange rate movements showed a positive long-run relationship with economic welfare in Nigeria, even though inflation and subsidy removal remained harmful. These contrasting findings suggest that exchange rate effects may differ depending on economic structure, export capacity, and policy responses.

The literature also reveals broad agreement regarding the harmful welfare effects of fuel subsidy removal. Most Nigerian studies conclude that subsidy removal increases transportation costs, food prices, inflation, and household hardship. Akinlo (2023), Raifu and Afolabi (2024), Abubakar et al. (2025), Addah (2025), Yahaya (2026), and Etuk et al. (2026) all documented sharp increases in transportation expenses and food prices following the removal of fuel subsidies. These studies explain that higher fuel prices increase production and distribution costs across the economy, leading to higher living costs for households.

Several studies further demonstrate that rural households suffer more severely because they depend heavily on transportation and agricultural activities. Akinlo (2023) and Etuk et al. (2026) found that rural communities

experienced greater food insecurity and welfare decline due to poor transportation alternatives and higher dependence on fuel-sensitive livelihoods. Yahaya (2026) similarly showed that low-income households, rural residents, and large families were the most affected groups after the 2023 subsidy removal in Nigeria.

Despite this broad agreement, some studies present more nuanced findings. Folami (2024) reported that although subsidy removal increased household debt and short-term hardship, it also produced positive long-run effects on household income and consumption. Nande et al. (2025) made a similar argument, stating that subsidy removal may improve fiscal sustainability and long-term efficiency, even though it worsens poverty in the short run. These studies suggest that while subsidy reforms may have future economic benefits, households often bear painful adjustment costs immediately after implementation.

The relationship between inflation and food security is another major theme in the literature. Many researchers agree that rising food prices worsen malnutrition and household food insecurity. Headey and Ruel (2023) showed that food inflation significantly increases child wasting and stunting in developing countries, especially among poor and rural households. Bwalya et al. (2023) similarly found that food-secure households were more likely to achieve proper child feeding practices. In Zambia, Munyeke and Silwimba (2025) observed that inflation forces households to reallocate spending toward food while sacrificing other essential needs. Households cope by reducing meal diversity, buying cheaper foods, and cutting non-essential expenditures.

Studies from Ethiopia by Eric et al. (2018) and Ali (2022) also found that food inflation significantly reduces household welfare, although the effects vary according to income level, land ownership, and rural-urban differences. Urban households were generally found to suffer greater welfare losses because they rely more heavily on market purchases than rural households with some level of self-production.

Another area of agreement concerns the role of monetary policy and money supply in inflation dynamics. Bello and Sanusi (2023), Adjemian et al. (2024), and Sunday (2026) all showed that monetary expansion and food price shocks contribute significantly to inflation. Bello and Sanusi (2023) specifically highlighted asymmetric inflation behavior, where increases in food prices strongly raise consumer prices, but reductions in food prices do not significantly reduce inflation. This suggests that inflationary pressures are often sticky and difficult to reverse once prices rise.

However, the literature also contains important contradictions. While most studies found inflation negatively affects household welfare and consumption, Akça (2025) found no symmetric causal relationship between inflation and household expenditures in Türkiye. Burke and Ozdagli (2023) also reported mixed evidence regarding inflation expectations and consumption behavior, finding that expected inflation increased spending only among certain households and mainly for durable goods. These findings imply that household responses to inflation may differ depending on income level, financial access, expectations, and consumption patterns.

Several studies also highlight the importance of government intervention and social protection in reducing welfare losses. Sarrakh et al. (2020), Abere (2025), Nande et al. (2025), and Yahaya (2026) all emphasized that compensatory policies such as targeted cash transfers, social welfare programs, transportation support, and food assistance can help cushion vulnerable households during periods of inflation and subsidy reforms. Similarly, Raphael et al. (2024) argued that investment in energy infrastructure and local production could stabilize food prices and reduce production costs in Nigeria.

The literature further demonstrates that inflation and fuel price shocks have wider macroeconomic consequences beyond households alone. Studies such as Ogwuche et al. (2024), Esekpa et al. (2024), and Onwioduokit et al. (2026) showed that inflation, exchange rate volatility, and oil price shocks negatively affect economic growth and macroeconomic stability. Chukunalu et al. (2025), however, presented a slightly different perspective by finding that Nigerian SMEs were able to transfer rising costs to consumers, reducing the direct impact of inflation on their operations. This suggests that businesses with stronger market power may adapt better to inflationary conditions than ordinary households.

Across the literature, methodological approaches also vary considerably. Researchers employed ARDL, VECM, NARDL, OLS, GARCH, Input-Output models, Difference-in-Differences models, and mixed-method approaches.

Despite these methodological differences, most studies reached similar conclusions regarding the harmful welfare effects of inflation, exchange rate instability, and fuel price increases. This consistency strengthens the credibility of the overall evidence.

Overall, the reviewed studies collectively show that inflation, exchange rate depreciation, and fuel subsidy removal are major drivers of household welfare decline, food insecurity, and rising living costs, especially in developing economies. Although some studies acknowledge possible long-run fiscal or economic benefits of subsidy reforms and exchange rate adjustments, the immediate effects on households are largely negative. The literature also reveals that vulnerable populations such as low-income earners, rural households, women, and children suffer the greatest burden during inflationary periods. Furthermore, while there is broad agreement on the negative welfare implications of inflation and fuel price shocks, contradictions remain regarding the long-run benefits of reforms, the role of inflation expectations, and the varying responses of different income groups and economic sectors. These mixed findings indicate that the relationship between inflation, fuel prices, exchange rates, and household welfare is complex and context-dependent, thereby justifying further empirical investigation.

3. Methodology

This study adopted a critical literature review approach to examine the relationship between fuel subsidy removal, inflation, exchange rate volatility, economic welfare, and cost of living. A critical literature review carefully examines, compares, and evaluates existing research findings in order to identify patterns, agreements, contradictions, gaps, and areas that require further attention. In this approach, the researcher does not merely report what previous scholars have said, but also critically analyzes the strengths, weaknesses, similarities, and differences in their findings and arguments. The choice of this method is suitable for the present study because the issues surrounding fuel subsidy removal and inflation are broad, complex, and multidimensional. Different scholars have studied these issues from various economic, social, and policy perspectives across different countries and periods. Some studies focus on inflationary effects, while others concentrate on exchange rate instability, household welfare, poverty, food security, or economic growth. Therefore, relying on one dataset or one statistical model alone may not provide a complete understanding of the topic. The critical literature review method allows the researcher to combine evidence from many studies and develop a deeper and more balanced understanding of the subject.

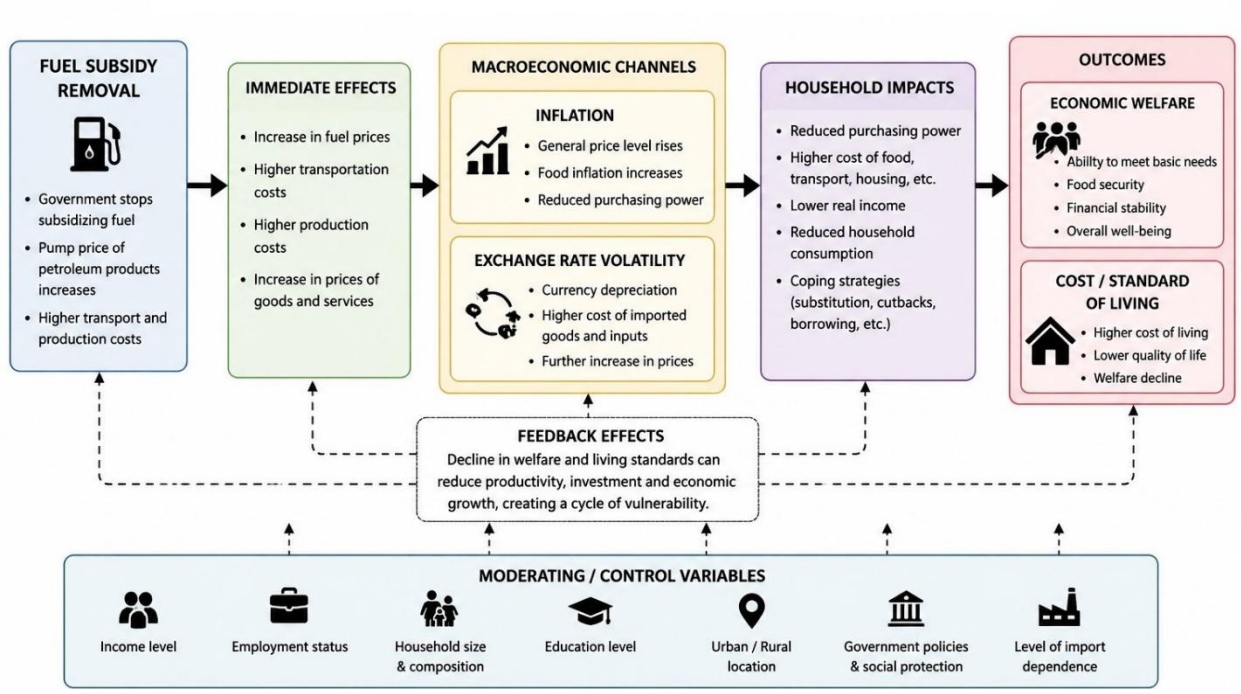
The study relied entirely on secondary data obtained from published journal articles, academic textbooks, conference papers, government reports, central bank publications, working papers, international organization reports, and policy documents. Additional information was sourced from reputable online academic databases such as Google Scholar, JSTOR, ResearchGate, ScienceDirect, Springer, and institutional repositories. The reviewed studies covered countries such as Nigeria, Ghana, Zambia, South Africa, Ethiopia, Bangladesh, Sierra Leone, Tanzania, Iran, Indonesia, Kenya, Somalia, Lebanon, and several other developing and developed economies. This broad coverage helped provide both local and international perspectives on the issues under investigation. The materials selected focused mainly on fuel subsidy removal, inflation, food inflation, exchange rate volatility, household welfare, consumption expenditure, poverty and food security, cost and standard of living, as well as economic growth and macroeconomic stability. Particular attention was given to studies that discussed the transmission effects of fuel price increases on transportation costs, food prices, purchasing power, and welfare outcomes. Preference was given to recent studies published between 2016 and 2026 in order to ensure that the review reflected current economic realities, especially the post-COVID-19 and post-fuel subsidy removal experiences observed in many countries.

The studies reviewed were selected using purposive sampling based on their relevance to the research topic. Purposive sampling was considered appropriate because the study required materials that specifically addressed the major variables under investigation. To ensure quality and relevance, several criteria guided the selection of the literature. First, the study had to discuss at least one of the major variables such as fuel subsidy removal, inflation, exchange rate volatility, or household welfare. Second, the study had to contain empirical evidence, theoretical arguments, or policy discussions directly related to the topic. Third, preference was given to studies published in credible academic journals, institutional reports, or recognized policy publications. Lastly, studies with clear methodology, reliable analysis, and well-explained findings were prioritized.

One major strength of the critical literature review method is that it provides a broader and more comprehensive understanding of the topic. Unlike methods such as Ordinary Least Squares (OLS), ARDL, VAR, VECM, or NARDL models used in many previous studies, which are often limited to a specific country, dataset, or period, the critical literature review draws evidence from multiple studies and different economic environments. This improves the depth, richness, and overall quality of analysis. Another important strength is that the method allows the researcher to identify trends, similarities, contradictions, and research gaps across the literature. Many empirical studies focus mainly on statistical relationships without fully explaining the broader economic realities behind the numbers. A critical review helps connect findings from different studies together and provides clearer interpretation of the underlying issues affecting households and economies.

4. Conceptual Framework Development

The conceptual framework for this study was developed from the major ideas, theories, and findings identified in the reviewed literature. The framework explains how fuel subsidy removal, inflation, and exchange rate volatility interact to influence economic welfare and the cost or standard of living of households. In simple terms, the framework helps to show the relationship between the key variables of the study and how one variable affects another. The development of this framework is based on the understanding that economic policies and macroeconomic conditions directly affect household welfare. Several studies consistently showed that increases in fuel prices, rising inflation, and unstable exchange rates often lead to higher transportation costs, increased food prices, declining purchasing power, and worsening living conditions (Akinlo, 2023; Raifu & Afolabi, 2024; Tijani, 2025). These factors together create pressure on household income and consumption patterns.



Note: Solid arrows indicate direct relationship; dashed arrows indicate feedback and moderating influence.

Fig-1: Conceptual Framework

At the center of the framework is fuel subsidy removal, which is treated as a major independent variable. The literature shows that when governments remove fuel subsidies, fuel prices rise sharply because the government no longer absorbs part of the cost of petroleum products (Olujobi & Iremukhai, 2024). This increase in fuel prices raises transportation and production costs across many sectors of the economy. As transportation and production become more expensive, the prices of goods and services also increase, thereby contributing to inflation and higher living costs (Simatupang & Friyatno, 2016; Yahaya, 2026). The framework also identifies inflation as another major variable influencing household welfare. Inflation reduces the purchasing power of money, meaning households can buy fewer goods and services with the same income (Smith & Johnson, 2019; Nazir & Mir, 2025). The reviewed studies revealed that food inflation is especially harmful because food accounts for a large share of household spending in many

developing countries (Headey & Ruel, 2023). As inflation rises, households often reduce consumption, switch to cheaper alternatives, or cut spending on non-essential needs (Munyeke & Silwimba, 2025).

Another important part of the framework is exchanging rate volatility. Many developing economies depend heavily on imported fuel, machinery, food items, and industrial inputs. Therefore, when the local currency loses value against foreign currencies, imported goods become more expensive (Raphael, Eggon & Moses, 2024). This further increases inflation and production costs, especially in countries with high import dependence such as Nigeria. Studies such as Sunday (2026) and Ogwuche et al. (2024) found that exchange rate depreciation significantly contributes to inflation and economic instability. The framework further explains that the combined effects of fuel subsidy removal, inflation, and exchange rate instability eventually influence economic welfare and the cost or standard of living. Economic welfare in this study refers to the ability of households to meet their basic needs, maintain purchasing power, achieve food security, and sustain a reasonable quality of life. When prices rise faster than income, households experience welfare losses because they can no longer afford essential goods and services comfortably (Abubakar et al., 2025; Abdullahi & Deng, 2025).

The literature also shows that these effects are not equally distributed across society. Low-income households, rural residents, women, and vulnerable populations are often affected more severely because they spend a larger proportion of their income on transportation and food (Olufemi-Phillips et al., 2024; Yahaya, 2026). This means that the relationship between the variables may also be influenced by social and economic conditions such as income level, employment status, household size, and access to government support programs. The conceptual framework therefore assumes that fuel subsidy removal increases fuel prices; higher fuel prices contribute to inflation and rising transportation costs; exchange rate volatility further increases the prices of imported goods and production inputs; inflation and exchange rate instability reduce purchasing power and household consumption; and reduced purchasing power negatively affects economic welfare and standard of living. The framework also recognizes that government policies such as social welfare programs, price controls, employment creation, and investment in local production may help reduce the negative effects of inflation and subsidy reforms on households (Evans et al., 2023; Nande et al., 2025).

5. Results and Discussion of Findings

A. Results

The studies reviewed show a strong and growing interest in understanding how fuel subsidy removal, inflation, exchange rate volatility, and rising living costs affect household welfare and economic stability, especially in developing countries such as Nigeria. Most of the studies focused on the relationship between inflation, food prices, exchange rate depreciation, and household welfare outcomes. Others specifically examined the effects of fuel subsidy removal on transportation costs, food inflation, poverty, and standards of living. A large number of the studies were conducted in Nigeria, reflecting the country's recent experience with fuel subsidy reforms and persistent inflationary pressures. For example, studies by Akinlo (2023), Raifu and Afolabi (2024), Addah (2025), Oboro and Agbamu (2024), and Yahaya (2026) examined how the removal of fuel subsidies increased transportation costs, food prices, and household hardship. Although Nigeria dominated the review, evidence from countries such as Ethiopia, Zambia, Tanzania, South Sudan, Sierra Leone, Bangladesh, Iran, and Indonesia helped provide comparative insights into how inflation and energy price reforms affect welfare across different developing economies. These studies consistently showed that rising fuel prices quickly spread across different sectors of the economy, making life more difficult for low-income households.

Beyond Nigeria, several studies from other developing countries such as Zambia, Ethiopia, Tanzania, Bangladesh, South Sudan, Iran, Sierra Leone, and Indonesia also explored similar economic problems. For instance, Mwale and Kabubi (2025) investigated how inflation affected household budgeting behavior in Zambia, while Abdullahi and Deng (2025) studied how inflation reduced household welfare in South Sudan. Likewise, Ali (2022) and Eric et al. (2018) examined the welfare effects of food inflation in Ethiopia. These international studies strengthen the broader understanding that inflation and energy price shocks are global welfare concerns, especially in economies where households spend a large share of income on food and transportation.

The reviewed studies applied different methodological approaches. Many adopted econometric methods such as the Autoregressive Distributed Lag (ARDL) model, Vector Error Correction Model (VECM), Nonlinear ARDL (NARDL), Ordinary Least Squares (OLS), Computable General Equilibrium (CGE) models, and Input-Output analysis. For example, Tijani (2025), Akinola et al. (2024), and Sunday (2026) used ARDL and VECM approaches to examine long-run and short-run relationships among inflation, exchange rates, fuel prices, and welfare indicators. Others, such as Sarrakh et al. (2020) and Faridzad (2022), used input-output modeling to estimate the welfare effects of energy price reforms. Studies such as Raifu and Afolabi (2024), Akinola et al. (2024), Abere (2025), and Nande et al. (2025) used dynamic ARDL and nonlinear ARDL models, which are considered robust for analyzing macroeconomic shocks and welfare outcomes.

Another strength of the reviewed studies is their policy relevance. Most of the researchers went beyond statistical findings to explain the real-life implications of inflation and subsidy reforms on households, businesses, transportation systems, and food security. For example, Etuk et al. (2026) demonstrated how fuel subsidy removal worsened food insecurity among rural households, while Yahaya (2026) highlighted how transportation costs became a major transmission channel through which fuel price increases reduced household welfare.

Some studies also adopted mixed-methods and survey-based approaches. Abubakar et al. (2025) used household survey data to assess the effects of subsidy removal on living costs in Taraba State, while Yahaya (2026) collected survey data from 1,200 households across Nigeria to examine the welfare impact of rising transportation costs after subsidy removal. These studies helped provide human-centered evidence that complemented the findings from macroeconomic models. In sum, the literature reviewed covered the period from approximately 1984 to 2026, showing both historical and recent perspectives on inflation, exchange rates, subsidy reforms, and welfare outcomes. The studies collectively demonstrate that fuel subsidy removal and inflation are strongly connected to rising costs of living, declining purchasing power, worsening food insecurity, and increased poverty levels.

B. Discussion of Findings

The findings from the reviewed studies strongly support the conceptual framework developed for this study. The framework explains that fuel subsidy removal acts as the starting point of a chain reaction that spreads through inflation, exchange rate volatility, and rising transportation and production costs before eventually affecting economic welfare and the general standard of living of households. The reviewed literature consistently confirms that these variables are deeply interconnected and collectively shape the economic experiences of individuals and families, especially in developing countries like Nigeria.

Many studies identified fuel subsidy as the major trigger of rising living costs. The removal of subsidies immediately increased fuel prices, and because fuel is directly connected to transportation, production, agriculture, and distribution activities, the effects quickly spread across the economy. Studies by Akinlo (2023), Raifu and Afolabi (2024), Addah (2025), and Yahaya (2026) all confirmed that transportation costs increased sharply after subsidy removal. The reviewed studies also show that rising fuel costs contribute significantly to inflation. Bello and Sanusi (2023), Sunday (2026), and Onwioduokit, Bassey, and Effiong (2026) found that fuel price shocks and monetary pressures contributed to persistent inflationary trends. Similarly, Muthahharah and Handayani (2025) showed that increases in fuel prices in Indonesia had a strong positive relationship with inflation.

The reviewed studies revealed that exchange rate depreciation worsens inflation and increases the cost of imported goods and production inputs. Studies such as Raphael, Eggon, and Moses (2024), Esekpa et al. (2024), and Chileya et al. (2024) found that exchange rate instability significantly increased food prices and inflationary pressures. Since Nigeria depends heavily on imported petroleum products, machinery, agricultural inputs, and manufactured goods, fluctuations in exchange rates quickly affect market prices and household spending. Similarly, inflation and exchange rate volatility jointly weaken household purchasing power and economic welfare. Studies by Nazir and Mir (2025), Otu (2022), Olusola et al. (2022), and Munir et al. (2026) consistently found that inflation negatively affects household consumption expenditure because rising prices reduce the real value of income. In simple terms, households are forced to spend more money to buy fewer goods and services.

The findings also highlight food prices as one of the clearest channels through which inflation affects welfare. Tijani (2025), Katuka et al. (2025), and Olufemi-Phillips et al. (2024) found that inflation significantly increased food

prices and worsened food insecurity, especially among low-income households. Headey and Ruel (2023) further showed that food inflation negatively affects children's nutrition and increases risks of wasting and malnutrition. These findings demonstrate that inflation is not merely a macroeconomic statistic; it directly affects daily survival, nutrition, and household wellbeing. However, the impacts of inflation and subsidy removal are not equally distributed across society. Many studies found that low-income households, rural communities, female-headed households, and vulnerable populations experience the greatest hardship during inflationary periods. For example, Akinlo (2023) found that rural households were more severely affected because of higher transportation dependence and limited alternatives. Similarly, Yahaya (2026) and Etuk et al. (2026) showed that poorer households suffered more from rising transportation and food costs after subsidy removal.

The findings also reveal that households respond to rising costs through different coping strategies. Some studies observed that families reduce non-essential spending, switch to cheaper food options, borrow money, or diversify income sources. Munyeke and Silwimba (2025) found that households reallocated resources toward food expenditure while sacrificing other needs. Folami (2024) also reported increased household debt as families borrowed money to cope with rising expenses. These coping behaviors reflect the practical ways households attempt to survive worsening economic conditions, even though such adjustments often reduce long-term welfare and quality of life.

Interestingly, the reviewed studies also revealed some inconsistencies, which the conceptual framework helps explain. While most studies found negative welfare effects from inflation and subsidy removal, a few studies reported mixed or positive long-term outcomes. For example, Folami (2024) found that subsidy reforms could produce long-term improvements in household income and consumption, while Okorie and Wesseh (2024) argued that subsidy removal may improve environmental quality despite reducing welfare in the short run. These findings suggest that the effects of subsidy reforms may differ depending on policy implementation, government support systems, economic structure, and time horizon.

The discussion also highlights the importance of government intervention within the conceptual framework. Several studies recommended exchange rate stabilization, investment in domestic refining, social welfare programs, food support, agricultural productivity, and targeted subsidies as ways to reduce the burden of inflation and rising living costs. Studies such as Sarrakh et al. (2020), Abere (2025), and Nande et al. (2025) emphasized that social protection measures are necessary to cushion vulnerable households during economic reforms. This supports the framework's implication that policy responses can either reduce or worsen the effects of inflationary shocks on welfare.

In summary, the literature demonstrates that fuel subsidy removal, inflation, exchange rate volatility, and rising living costs are not isolated economic issues. Instead, they form a connected system where changes in one variable influence the others. The combined effects ultimately shape household welfare, purchasing power, food security, and standards of living. The evidence from the reviewed studies therefore reinforces the need for integrated economic policies that address inflation, exchange rate stability, transportation costs, and social welfare simultaneously rather than treating them as separate problems.

6. Limitations of the Study

One of the observed limitations is the reliance on critical review of existing literature rather than collecting primary data directly from households, firms, or policymakers. As a result, the findings are largely dependent on the quality, scope, and reliability of previous studies. Some of the reviewed studies used different methodologies, sample sizes, time periods, and economic indicators, which sometimes created variations in findings and made direct comparison difficult. Another limitation is that most of the available studies concentrated more on macroeconomic indicators such as inflation, exchange rate, and economic growth, while fewer studies deeply explored household-level realities such as mental stress, nutrition, health outcomes, education access, and long-term social welfare effects. This creates a gap in understanding the broader human impact of rising living costs beyond economic statistics alone. The study also recognizes that the economic situation surrounding subsidy removal is still evolving, especially in countries like Nigeria where post-subsidy reforms are relatively recent. As a result, some long-term effects may not yet be fully visible in current literature. Furthermore, rapidly changing global oil prices, geopolitical events, and

international economic conditions can influence inflation and exchange rate movements, making it difficult to isolate the effects of subsidy removal alone.

Therefore, future studies should collect primary data directly from households, businesses, transport operators, farmers, and vulnerable communities to provide a deeper understanding of how people are coping with rising fuel prices, inflation, and declining purchasing power in their everyday lives. Surveys, interviews, and case studies could help reveal experiences that may not appear in macroeconomic data alone. Future studies should also pay attention to specific population groups such as rural households, women, youth, informal workers, pensioners, and small business owners which often experience economic shocks differently, but most times treated as part of a general population in existing studies. Understanding these differences could help policymakers design more targeted and inclusive interventions. In addition, future studies should explore the role of social protection programs, digital cash transfers, renewable energy adoption, and local refining capacity in reducing the welfare burden associated with subsidy reforms. Finally, future research should integrate economic analysis with social and environmental perspectives. More attention should be given to issues such as food security, healthcare access, education, mental well-being, energy poverty, and environmental sustainability. This would provide a more holistic understanding of how inflation, exchange rate instability, and fuel subsidy reforms shape not only economic welfare but also the overall quality of life of households and communities.

7. Conclusion and Recommendations

This study concludes that fuel subsidy removal may help governments reduce fiscal pressure in the long run, but in the short run it often creates serious economic hardship for households through rising fuel prices, transportation costs, food inflation, and declining purchasing power. Moreover, inflation remains one of the strongest channels through which welfare declines occur. As prices rise, households are forced to spend more on food, transportation, electricity, and other basic needs, while real income continues to shrink. The study further concludes that the effects of subsidy removal are not the same across all groups. Rural households, low-income earners, informal workers, and small businesses experience heavier burdens because they are more vulnerable to transportation and food price increases.

From an industry perspective, these findings carry important implications for transportation, agriculture, manufacturing, retail, and small-scale enterprises. Businesses operating in these sectors face increasing production and logistics costs whenever fuel prices rise or exchange rates fluctuate. This often leads to higher consumer prices, reduced demand, and lower profitability. This study therefore suggests that industries should begin to adopt cost-efficient production systems, alternative energy solutions, localized supply chains, and digital distribution models to reduce dependence on fuel-intensive operations. Investment in renewable energy, local refining capacity, and agricultural mechanization could also reduce long-term exposure to global oil price shocks and exchange rate instability.

Based on the findings, several actionable recommendations are necessary. First, governments should avoid abrupt subsidy removal without adequate social protection mechanisms. Targeted cash transfers, transportation support programs, food assistance, and wage adjustments should be introduced before or alongside subsidy reforms to cushion vulnerable households. Second, policymakers should prioritize exchange rate stability because exchange rate depreciation has proven to be one of the strongest drivers of inflation and welfare decline. Third, governments should increase investments in local production, agriculture, energy infrastructure, and domestic refineries to reduce dependence on imports and lower production costs. In addition, central banks and fiscal authorities should coordinate policies aimed at controlling inflation while supporting employment creation and economic productivity. Public transportation systems should also be strengthened to reduce household transportation burdens after fuel price increases. Finally, transparency and accountability in the management of subsidy savings are essential. Citizens are more likely to support economic reforms when they can clearly see improvements in infrastructure, healthcare, education, and public welfare.

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