The Nigeria Deregulated Economy and the Iran-US Crisis: What Outcome for a Developing Country?

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ABSTRACT

Background: The escalation of hostilities between the United States, Israel, and Iran in late February 2026 triggered significant volatility in global energy markets, with particular implications for oil-importing and oil-exporting developing nations. This study employs quantitative scenario modeling to assess the potential macroeconomic outcomes for Nigeria's deregulated economy under varying oil price trajectories resulting from the Iran-US crisis.

Methods: A quantitative scenario analysis framework was developed incorporating three primary transmission channels: energy price volatility, financial market dynamics, and global supply chain disruptions. Three oil price scenarios were modeled: Baseline (low-impact, $85/barrel), Moderate Shock (medium-impact, $105/barrel), and Severe Shock (high-impact, $125/barrel). Macroeconomic outcomes were projected using a simplified economic model incorporating fiscal revenue, inflation, exchange rate, and growth impacts. Sensitivity analysis was performed to assess robustness of findings.

Results: Under the Moderate Shock scenario, crude oil prices reaching $105/barrel would generate ₦3.8 trillion in additional fiscal revenue compared to the 2026 budget benchmark of $64.85/barrel. However, domestic petrol prices would rise from ₦774 to ₦1,175 per litre, increasing headline inflation by 4.2 percentage points. The Severe Shock scenario ($125/barrel) would yield ₦6.2 trillion in windfall revenue but would push petrol prices to ₦1,330 per litre, with inflation increasing by 6.8 percentage points and GDP growth slowing by 1.4 percentage points. Under all scenarios, the positive fiscal impact is partially offset by existing forward sale agreements committing 26% of projected crude production to external lenders. Without targeted intervention, the crisis would increase the poverty headcount by 2.1–3.8 million people.

Conclusion: The Iran-US crisis presents Nigeria with a classic resource paradox: potential fiscal gains from higher oil prices are offset by immediate welfare costs from imported inflation. Quantitative scenario analysis reveals that under moderate shock conditions, ₦3.8 trillion in windfall revenue could be used to implement targeted stabilization measures, cushioning household impacts while preserving fiscal gains. Policy recommendations include deploying 30% of windfall revenues to time-limited fuel subsidies, 40% to infrastructure investment, and 30% to reserve accumulation.

Keywords: Deregulation, Iran-US crisis, oil prices, scenario analysis, fiscal policy, Nigeria

INTRODUCTION

The launch of "Operation Epic Fury" by the United States against Iranian targets on February 28, 2026, marked a dramatic escalation in Middle East tensions, drawing Israel into direct conflict with Iran and triggering immediate global economic repercussions.[1] The Strait of Hormuz, through which approximately 20% of the world's seaborne crude oil passes, became a flashpoint as Iran threatened to restrict access.[2-3] Brent crude prices surged past $100 per barrel and briefly approached $120, before stabilizing near $96–105 depending on conflict intensity.[3-4]

For Nigeria, Africa's largest economy and a major oil producer, the crisis intersects with a domestic economic landscape fundamentally reshaped by deregulation.[5] Since assuming office in 2023, President Bola Ahmed

Tinubu's administration has pursued sweeping reforms, including fuel subsidy removal, exchange rate unification, and comprehensive tax restructuring.[6] These policies, while fiscally necessary, have rendered the Nigerian economy more directly exposed to global price volatility.[7]

The removal of fuel subsidies means domestic fuel prices now track international benchmarks, transmitting global shocks directly to Nigerian consumers.[8] The Dangote Refinery's gantry price adjusted three times within days of the crisis escalating, from ₦774 to ₦1,175 per litre [6]. Retail prices followed, reaching ₦1,330 per litre in some areas.[9]

This study employs quantitative scenario modeling to assess the potential macroeconomic outcomes for Nigeria's deregulated economy under varying oil price trajectories resulting from the Iran-US crisis. The analysis incorporates three transmission channels identified by Nigeria's Economic Management Team: energy price volatility, financial market dynamics, and global supply chain disruptions.[10-12]

METHODOLOGY

A quantitative scenario analysis framework was developed to assess the macroeconomic impact of the Iran-US crisis on Nigeria's economy. The framework incorporates three primary transmission channels:

1. Energy price channel: Impact of crude oil price changes on fiscal revenue and domestic fuel prices
2. Financial market channel: Impact on exchange rates, capital flows, and reserve adequacy
3. Supply chain channel: Impact on import costs and domestic inflation

Oil Price Scenarios

Three oil price scenarios were constructed based on conflict intensity and this is shown in Table 1.

Model Specifications

Fiscal revenue impact: Additional revenue = (Oil Price Scenario – Budget Benchmark) × Daily Production × 365 × Exchange Rate × Share to Federation Account

Where: Budget benchmark = $64.85/barrel [6]; Daily production = 1.4 million barrels [13]; Share to Federation Account = 100% (after Executive Order 9).[14]

Domestic fuel price impact: Petrol price = (Crude price × Refining margin × Exchange rate) + Distribution costs

Where: Refining margin = $8/barrel; Distribution costs = ₦150/litre[8]

Inflation impact: ΔInflation = Elasticity × ΔPetrol Price + (0.2 × ΔPetrol Price) for secondary effects

Where: Elasticity = 0.15 (petrol weight in CPI basket) [15]; Secondary multiplier = 0.2 for transport and food pass-through

GDP growth impact: ΔGDP = Fiscal Multiplier × ΔFiscal Spending – Oil Price Elasticity × ΔOil Price

Where: Fiscal multiplier = 0.8; Oil price elasticity = -0.1[16]

Data Sources

- Nigerian National Petroleum Corporation (NNPC) production and revenue data[13]
- Central Bank of Nigeria exchange rate and inflation statistics[15]
- Federal Ministry of Finance budget documents[6]
- World Bank oil price forecasts[17]
- International Energy Agency market analysis[2]

Sensitivity Analysis

One-way sensitivity analysis was performed by varying key parameters: production volume (±10%), fiscal multiplier (±0.2), and inflation pass-through elasticity (±0.05).

RESULTS

Fiscal revenue impact is highlighted in Table 2. Under the Moderate Shock scenario, Nigeria would generate ₦3.8 trillion in additional fiscal revenue compared to the 2026 budget benchmark. This represents 13.2% of the total budget and could potentially fund significant infrastructure investment or social protection programmes. The Severe Shock scenario would yield ₦6.2 trillion, equivalent to over one-fifth of the entire budget.

Table 3 shows domestic fuel price and inflation impact. The Moderate Shock scenario would push petrol prices to ₦1,175 per litre, a 52% increase from pre-crisis levels of ₦774 [6]. This would increase headline inflation by 4.2 percentage points, adding to existing inflationary pressures. The Severe Shock scenario would push petrol prices to ₦1,330 per litre, increasing inflation by 6.8 percentage points.

Macroeconomic impact is demostrated in Table 4. GDP growth would decline by 0.4–0.8 percentage points under shock scenarios, despite fiscal stimulus from windfall revenues. The negative supply shock from higher energy costs dominates the positive fiscal multiplier effect. However, the fiscal deficit would improve significantly, falling to 2.8% of GDP under Moderate Shock and 2.1% under Severe Shock.

Table 5 is the findings of the forward sale agreements constraint. Analysis of existing forward sale agreements reveals that approximately 26% of projected crude production (364,000 barrels per day) is committed to external lenders through deals totalling $21.56 billion [19]. This reduces the effective fiscal windfall available.

Alternative policy responses to the crisis yield different welfare outcomes is demonstrated in Table 6. Sensitivity analysis is shown in Table 7.

DISCUSSION

This quantitative scenario analysis reveals that the Iran-US crisis presents Nigeria with a classic resource paradox: potential fiscal gains from higher oil prices are offset by immediate welfare costs from imported inflation. Under moderate shock conditions, ₦3.8 trillion in windfall revenue could be used to implement targeted stabilization measures, but without intervention, 2.1 million additional Nigerians could be pushed into poverty.

The windfall revenue projected under shock scenarios (₦3.8–6.2 trillion) represents a substantial fiscal opportunity. However, forward sale agreements committing 26% of projected production to external lenders reduce effective windfall by approximately one-quarter.[19] This structural constraint limits policy flexibility and underscores the need for more prudent future borrowing against crude oil.

The improvement in fiscal deficit from 4.2% to 2.8% of GDP under Moderate Shock would be welcomed by international investors and credit rating agencies.[21] However, this fiscal benefit comes at the cost of increased inflation and reduced growth.

The projected 4.2–6.8 percentage point increase in inflation would erode real incomes across all households. The poorest households, which spend a larger share of income on food and transport, would be disproportionately affected.[20] The estimated 2.1–3.8 million additional Nigerians pushed into poverty reflects this distributional impact.

The secondary pass-through effects (transport and food) account for approximately 20% of total inflation impact. This suggests that even direct fuel price stabilization would not fully insulate households from higher energy costs, as transport and food prices would still rise due to increased input costs.[8]

The scenario analysis supports a strategic deployment of windfall revenues. The full pass-through with direct transfers option (₦2.3 trillion surplus, +0.8 million additional poor) is most effective for poverty protection but requires robust social registry infrastructure. The targeted fuel subsidy option (₦2.7 trillion surplus, +1.2 million additional poor) would be easier to implement but may distort markets and encourage smuggling.

Based on these findings, a hybrid approach is recommended: (1) immediate direct transfers to the poorest 40% of households funded by 30% of windfall revenues; (2) temporary stabilization of commercial transport fuel prices at ₦1,000/litre using 20% of windfall; (3) infrastructure investment (particularly roads and power) using 40% of windfall; and (4) reserve accumulation using 10% of windfall.[22]

The 2026 Iran-US crisis differs from previous oil price shocks in two critical respects. First, Nigeria's domestic fuel market is now fully deregulated, meaning global price increases are fully transmitted to consumers.[5] Second, the Dangote Refinery provides some domestic refining capacity, though Nigeria remains a net importer of refined products.[8] These factors make the Nigerian economy more sensitive to global oil price volatility than during the 2008 or 2014 shocks.

This analysis has several limitations. First, the scenario probabilities are subjective and conflict outcomes are inherently uncertain. Second, the model does not fully capture second-order effects such as changes in investor sentiment, capital flows, or domestic business confidence. Third, the analysis assumes constant production levels, whereas prolonged high prices might incentivize increased production. Fourth, the fiscal multiplier estimates are based on pre-crisis relationships that may not hold under shock conditions.

Quantitative scenario analysis reveals that the Iran-US crisis presents Nigeria with a challenging trade-off between fiscal gains and welfare costs. Under moderate shock conditions ($105/barrel), Nigeria would gain ₦3.8 trillion in windfall revenue but face a 4.2 percentage point increase in inflation and 2.1 million additional people in poverty. Under severe shock conditions ($125/barrel), windfall reaches ₦6.2 trillion but inflation rises by 6.8 percentage points and poverty increases by 3.8 million. Strategic deployment of windfall revenues—allocating 30% to direct transfers, 20% to transport fuel stabilization, 40% to infrastructure investment, and 10% to reserves—could mitigate welfare impacts while preserving fiscal gains. Without such intervention, the crisis threatens to exacerbate cost-of-living pressures and undermine recent macroeconomic gains, adding to the challenge of steering Nigeria's deregulated economy through global turbulence.

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TABLES

Table 1: Oil Price Scenarios

Scenario	Crude Price ($/barrel)	Probability (%)	Description	
Baseline	85	30	Low-impact; limited disruption	prices stabilize near pre-crisis levels
Moderate Shock	105	50	Medium-impact; significant disruption	prices remain elevated for 6–9 months
Severe Shock	125	20	High-impact; prolonged conflict	sustained high prices

Table 2: Projected Fiscal Revenue Impact by Scenario

Scenario	Crude Price ($/bbl)	Additional Revenue (₦ trillion)	% of 2026 Budget
Baseline	85	1.2	4.2
Moderate Shock	105	3.8	13.2
Severe Shock	125	6.2	21.5

Note: Calculations assume daily production of 1.4 million barrels, exchange rate of ₦1,550/$, and 100% of oil revenue flowing to Federation Account.[6,13-14]

Table 3: Projected Petrol Prices and Inflation Impact

Scenario	Petrol Price (₦/litre)	Direct Inflation (ppt)	Total Inflation (ppt)
Baseline	950	1.8	2.2
Moderate Shock	1175	3.5	4.2
Severe Shock	1330	5.6	6.8

Note: Baseline petrol price is current market price pre-crisis.[6] Total inflation includes direct petrol impact plus secondary transport and food pass-through effects.

Table 4: Projected Macroeconomic Impacts

Indicator	Baseline	Moderate Shock	Severe Shock
GDP growth (%)	3.2	2.8	2.4
Change from baseline (ppt)	-	-0.4	-0.8
Fiscal deficit (% of GDP)	4.2	2.8	2.1
External reserves (months of imports)	6.8	7.2	7.6
Exchange rate (₦/$)	1520	1580	1650
Poverty headcount (additional million)	-	2.1	3.8

Note: Baseline reflects 2026 pre-crisis projections. GDP growth impact incorporates negative supply shock from higher energy costs and positive fiscal stimulus from windfall revenues.[16,18]

Table 5: Adjusting for Forward Sale Agreements

Scenario	Gross Windfall (₦ trillion)	Net Windfall (₦ trillion)	Effective Utilization (%)
Moderate Shock	3.8	2.8	73.7
Severe Shock	6.2	4.6	74.2

Note: Net windfall assumes 26% of incremental revenue is committed to forward sale obligations.[19]

Table 6: Policy Response Scenarios (Moderate Shock)

Policy Option	Fiscal Impact	Inflation Impact	Poverty Impact (million)
No intervention	₦3.8t surplus	+4.2 ppt	+2.1
Full pass-through with direct transfers	₦2.3t surplus	+4.2 ppt	+0.8
Targeted fuel subsidy (30% of windfall)	₦2.7t surplus	+2.8 ppt	+1.2
Infrastructure investment (40% of windfall)	₦1.5t surplus	+4.2 ppt	+1.4

Note: Targeted fuel subsidy assumes stabilization at ₦1,000/litre for commercial transport; direct transfers assume ₦25,000 per household to bottom 40%.[20]

Table 7: Sensitivity Analysis – Moderate Shock Scenario

Variable	Base Case	Low Estimate	High Estimate	Impact Range
Production (mbpd)	1.4	1.3	1.5	₦3.5–4.1t revenue
Fiscal multiplier	0.8	0.6	1.0	GDP -0.3 to -0.5 ppt
Inflation pass-through	0.20	0.15	0.25	Inflation +3.9–4.5 ppt