



The American–Iran War and the Nigerian Economy: Vulnerabilities, Transmission Channels, and Policy Recommendations

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Abstract

The eruption of direct military confrontation between the United States and the Islamic Republic of Iran in February 2026 and the subsequent closure and contestation of the Strait of Hormuz produced one of the sharpest geopolitically induced energy shocks of the past two decades, with Brent crude surging from approximately \$72 per barrel to a peak near \$120 per barrel within weeks. This study examines the transmission of that shock into the Nigerian economy, a country whose fiscal architecture remains heavily dependent on crude oil receipts even as its domestic fuel market has been substantially reorganised by the 2023 removal of the petrol subsidy and the emergence of the 650,000 barrels-per-day Dangote Petroleum Refinery. Adopting a descriptive, ex-post-facto research design anchored in secondary macroeconomic data drawn from the Central Bank of Nigeria, the National Bureau of Statistics, the Nigerian National Petroleum Company Limited, and reputable international financial institutions, the article traces the principal channels through which the conflict transmitted to Nigeria: the federation oil-revenue windfall channel, the domestic pump-price and inflation pass-through channel, the exchange-rate and external-reserves channel, the shipping, insurance, and trade-logistics channel, and the investor-confidence and capital-flow channel. The findings indicate that Nigeria experienced a paradoxical short-run outcome in which higher international crude prices simultaneously swelled federally distributable oil revenue while elevating headline inflation, which climbed from 15.06 per cent in February 2026 to 15.93 per cent by May 2026, driven substantially by transport and food sub-indices. The naira's relative stability, underpinned by central bank reforms and a build-up of external reserves to over \$50 billion, partially cushioned the pass-through of imported inflation, while persistent shortfalls in crude

allocation to the Dangote refinery limited the extent to which Nigeria could convert its position as Africa's largest crude producer into domestic price stability. The study concludes that Nigeria's vulnerability to exogenous Middle Eastern conflict is structural rather than incidental, rooted in mono-product export dependence, import-dependent refined-fuel logistics in the short transition period, and shallow buffers against imported food and energy inflation. Policy recommendations centre on accelerating feedstock security for domestic refining, deepening the Excess Crude Account and sovereign wealth buffers, diversifying non-oil export receipts, and strengthening social protection instruments to shield vulnerable households from imported price shocks.

Keywords: energy shock, oil-revenue transmission, Inflation pass-through, exchange-rate resilience, refining feedstock security.

1. Introduction

1.1 Background to the Study

On 28 February 2026, the United States and Israel launched joint military strikes against the Islamic Republic of Iran, killing several senior Iranian officials, including the country's long-serving Supreme Leader, and opening a conflict that within days had drawn in Gulf States, the Houthi movement in Yemen, and the full weight of global energy markets. Iran responded by attacking energy infrastructure and shipping across the Gulf and by declaring the Strait of Hormuz, the conduit for roughly one-fifth of the world's seaborne oil and liquefied natural gas trade, closed to commercial traffic. The immediate consequence was one of the most consequential energy-price shocks in recent history. Brent crude, trading at about \$72 per barrel on the eve of the strikes, climbed by more than fifty percent within a month and touched almost \$120 per barrel at its peak in late March 2026, before easing in subsequent months as ceasefire negotiations, strategic reserve releases coordinated by the International Energy Agency, and a partial reopening of the Strait gradually restored a measure of calm to global markets.

The economic reverberations of the conflict were transmitted unevenly across the globe. Oil-importing economies in Asia, including Pakistan, Bangladesh, and Vietnam, experienced acute fuel shortages, rationing, and inflationary surges, while oil-exporting economies recorded windfall gains in export receipts. Nigeria occupies an unusual and analytically interesting position within this global pattern. As Africa's largest crude oil producer and a country whose federal, state, and local government budgets remain substantially dependent on oil receipts, Nigeria stood to benefit from the price surge through higher dollar earnings on its exported barrels. Simultaneously, however, Nigeria is a country in which the 2023 removal of the petrol



subsidy means that domestic pump prices now move in close correlation with international product prices, exposing households and firms directly to the same global shock that was filling the federation account. The completion and ramp-up of the Dangote Petroleum Refinery, a 650,000 barrels-per-day facility that by February 2026 had reached full nameplate capacity and converted Nigeria into a net exporter of refined petroleum products for the first time in decades, added a further layer of complexity, since the refinery's capacity to insulate the domestic market depended critically on whether it could secure adequate crude feedstock from the Nigerian National Petroleum Company Limited (NNPC) and other domestic producers rather than relying on costlier imported or front-sold crude.

Nigeria's macroeconomic position entering the conflict was, on balance, more resilient than it had been during previous oil shocks. Headline inflation had fallen for eleven consecutive months to 15.06 percent in February 2026, the naira had stabilized under a more transparent foreign exchange regime, and external reserves had climbed to over \$50 billion, the highest level in thirteen years.

1.2 Statement of the Problem

Despite Nigeria's status as Africa's leading crude oil producer, the country has historically been unable to convert favourable movements in international oil prices into commensurate improvements in domestic welfare. This paradox, in which rising export earnings coexist with rising domestic hardship, has reasserted itself sharply during the 2026 American–Iran war. On the one hand, the federation account stood to gain substantially from elevated oil prices, with conservative industry estimates projecting additional federally distributable revenue running into trillions of naira if the Middle East tensions persisted. On the other hand, ordinary Nigerian households experienced rising transport fares, rising food prices linked to higher logistics costs, and renewed erosion of real incomes, precisely because the same subsidy-free pricing regime that allows global price signals to reach the treasury also allows them to reach the petrol pump. The problem this study addresses, therefore, is twofold. First, there is insufficient systematic understanding of the specific channels, fiscal, monetary, exchange-rate, trade-logistics, and confidence-related, through which an exogenous war shock originating in the Middle East is transmitted into the Nigerian economy, and of the relative magnitude of each channel during the 2026 episode. Second, there is a policy gap concerning how Nigeria can better insulate its domestic price level and its vulnerable households from such shocks while still capturing the fiscal upside that elevated oil prices generate, particularly given the unresolved tension between the country's crude export ambitions and its domestic refining and feedstock-security needs, as exemplified by the Dangote refinery's persistent under-supply of NNPC-allocated cargoes throughout the conflict period. Without a clear empirical mapping of these transmission

channels and their relative weights, Nigerian fiscal and monetary authorities risk responding to future geopolitical shocks with policy instruments that are mismatched to the actual sources of vulnerability.

1.3 Scope of the Study

This study is delimited in time, space, and subject matter. Temporally, the study focuses on the period from February 2026, marking the outbreak of the American–Iran war, through June 2026, encompassing the period of peak conflict intensity, the subsequent ceasefire negotiations, and the early phase of post-conflict economic adjustment, while drawing on relevant pre-conflict baseline data from 2024 and 2025 for comparative purposes. Spatially, the study is confined to the Nigerian economy at the national macroeconomic level, drawing on aggregate indicators of inflation, exchange rates, oil production and revenue, external reserves, and trade flows, rather than conducting firm-level, household-level, or state-by-state microeconomic analysis. Substantively, the study concentrates on five principal transmission channels, namely, the oil-revenue and fiscal-federalism channel, the domestic fuel-price and inflation pass-through channel, the foreign exchange and external reserves channel, the maritime trade, shipping insurance, and logistics channel, and the investor confidence and portfolio capital flow channel.

1.4 Objectives of the Study

The broad objective of this study is to examine the vulnerabilities, transmission channels, and policy implications of the American–Iran war for the Nigerian economy. The specific objectives are:

- i. examine the principal channels through which the 2026 American–Iran war and the associated global oil price shock were transmitted into key macroeconomic indicators of the Nigerian economy, including inflation, the exchange rate, and fiscal revenue;
- ii. assess the structural vulnerabilities within the Nigerian economy, including its oil-revenue dependence, domestic refining capacity constraints, and import dependence, that conditioned the scale and distribution of the conflict's economic effects; and
- iii. evaluate the adequacy of Nigeria's fiscal and monetary policy responses during the conflict period and recommend policy measures capable of reducing the country's vulnerability to future geopolitically induced oil price shocks.



1.5 Significance of the Study

This study is significant to several categories of stakeholders. To policymakers within the Central Bank of Nigeria, the Federal Ministry of Finance, Budget and National Planning, and the National Assembly, the study offers an evidence-based mapping of transmission channels that can inform the design of more targeted fiscal buffers, hedging instruments, and social protection mechanisms ahead of future global energy shocks. To the Nigerian National Petroleum Company Limited and domestic refining operators, including the Dangote Petroleum Refinery and the state-owned refineries undergoing rehabilitation, the study underscores the strategic cost of persistent feedstock-allocation shortfalls and strengthens the empirical case for prioritising domestic crude supply obligations under the Petroleum Industry Act. To the academic community, the study contributes a timely, data-grounded case study to the literature on oil price shocks and African economies, extending existing scholarship, much of which is anchored in the 1970s oil shocks, the 1990 Gulf War, the 2008 global financial crisis, and the 2022 Russia-Ukraine war, to a 2026 conflict episode with its own distinctive structural features, notably the post-subsidy-removal pricing regime and the maturation of large-scale domestic refining capacity. Finally, to the Nigerian public and civil society organisations engaged in monitoring the social impact of macroeconomic policy, the study clarifies why a war fought thousands of kilometres from Nigeria's shores can nonetheless raise the price of garri, transport fares, and electricity in Lagos, Kano, and Port Harcourt, thereby contributing to more informed public discourse and policy advocacy.

1.6 Research Questions

In line with the objectives stated above, the study seeks to answer the following research questions:

- i. Through which channels did the 2026 American–Iran war and the associated global oil price shock transmit into Nigeria's inflation, exchange rate, and fiscal revenue outcomes?
- ii. What structural vulnerabilities within the Nigerian economy, particularly oil dependence, refining capacity constraints, and import reliance, shaped the scale and distribution of these effects?
- iii. How adequate were Nigeria's fiscal and monetary policy responses during the conflict period, and what policy measures could reduce the country's vulnerability to future similar shocks?

2. Review of Related Literature

2.1 Conceptual Background

This section clarifies the principal concepts deployed throughout the study, namely oil price shocks, transmission channels, exchange rate pass-through, fiscal federalism, and macroeconomic vulnerability, before proceeding to a focused conceptual treatment of the two central variables of the study: the American–Iran war as an exogenous geopolitical shock and the Nigerian economy as the recipient macroeconomic system.

2.1.1 Concept of Oil Price Shocks

An oil price shock refers to a sudden, large, and largely unanticipated change in the international price of crude oil, typically arising from disruptions to supply, abrupt shifts in demand, or speculative repricing of geopolitical risk. Literature conventionally distinguishes between supply-side shocks, which originate from disruptions to physical production or transport of crude oil, and demand-side shocks, which arise from changes in global economic activity. The 2026 episode associated with the American–Iran war is properly classified as a supply-side, geopolitically induced shock, since the price surge originated not from any change in the underlying demand for energy but from the closure of the Strait of Hormuz and the attendant disruption to approximately one-fifth of global seaborne oil and liquefied natural gas trade. Oil price shocks of this kind are typically transmitted to importing and exporting economies alike, although the direction and magnitude of the welfare effect differ sharply depending on whether the receiving economy is a net importer or net exporter of crude oil.

2.1.2 Concept of Transmission Channels

A transmission channel, in macroeconomic usage, denotes the specific mechanism or pathway through which an exogenous shock originating outside a domestic economy propagates into that economy's observable variables, such as prices, output, the exchange rate, and fiscal revenue. Transmission channels are not mutually exclusive; a single shock typically propagates simultaneously through multiple channels with differing speeds and intensities. For an oil-exporting, import-dependent economy such as Nigeria, the principal channels identified in the literature include the direct fiscal-revenue channel, through which higher export prices raise government receipts; the cost-push inflation channel, through which higher domestic fuel and input prices raise the general price level; the exchange-rate channel, through which shifts in dollar earnings and capital flows affect the value of the domestic currency; the trade and logistics channel, through which shipping costs, insurance premiums, and freight rerouting affect the landed cost of imports and exports; and the confidence or expectations channel,



through which heightened uncertainty affects investment, portfolio flows, and household and firm behaviour.

2.1.3 Concept of Exchange Rate Pass-Through

Exchange rate pass-through refers to the degree to which changes in the exchange rate, or in this case changes in the dollar price of imported energy and food, are reflected in the domestic price level. In economies with high import dependence for refined petroleum products, pharmaceuticals, and food inputs, pass-through tends to be rapid and substantial. Nigeria's pass-through dynamics during the 2026 conflict were shaped by two countervailing forces: on one hand, the post-subsidy-removal pricing regime ensured that international product price increases reached the pump with little delay; on the other hand, the relative stability of the naira, supported by accumulated external reserves and a more credible foreign exchange framework, moderated the extent to which the shock was amplified by currency depreciation, distinguishing the 2026 episode from earlier Nigerian oil shocks in which currency collapse compounded imported inflation.

2.1.4 Concept of Fiscal Federalism and the Federation Account

Fiscal federalism in the Nigerian context refers to the constitutionally prescribed arrangement under which oil and non-oil revenues accruing to the federation are pooled into the Federation Account and subsequently shared among the federal, state, and local governments according to an agreed-upon formula. Because a substantial share of federally collectable revenue derives from crude oil sales and petroleum profit taxes, fluctuations in international oil prices translate directly into fluctuations in the funds available for distribution to all three tiers of government, making fiscal federalism a critical institutional conduit through which global oil shocks reshape the Nigerian public finance landscape, often with a lag determined by crude-backed loan obligations, production-sharing contract terms, and domestic refining offtake arrangements that can decouple a portion of revenue from the prevailing spot price.

2.2 Theoretical Framework

This study anchors its analysis on two complementary theories such as the Resource Curse/Dutch Disease Theory and the Theory of Oil Price Shock Transmission. Together, these theories explain both why Nigeria's oil dependence structurally predisposes it to shocks of this kind and the specific mechanisms through which the 2026 American–Iran war propagated into the domestic economy.

2.2.1 Resource Curse / Dutch Disease Theory

The Dutch Disease model, formalised by Corden and Neary (1982) and subsequently extended within the broader resource curse literature, holds that a windfall in a resource-exporting sector triggers two effects: a resource-movement effect, whereby factors of production shift from the lagging non-resource tradable sector, typically manufacturing and agriculture, towards the booming resource sector; and a spending effect, whereby windfall revenue raises domestic demand for non-tradable goods, appreciating the real exchange rate and eroding the competitiveness of non-oil exports. The cumulative outcome, termed the resource curse, is that resource-rich economies frequently underperform resource-poor peers over the long run, becoming more, rather than less, dependent on the dominant commodity. Applied to Nigeria, this theory explains why successive oil-price booms, including the 2026 episode, have not translated into durable diversification: federation revenue windfalls are absorbed into recurrent consumption and non-tradeable demand rather than channelled into building competitive non-oil tradeable sectors, while episodic dependence on crude earnings leaves the naira, and by extension domestic prices, exposed to the next reversal in international oil markets. The theory therefore provides the structural rationale for this study's finding that Nigeria's fiscal windfall and household cost burden during the 2026 conflict were two faces of the same unresolved mono-product dependence.

2.2.2 Theory of Oil Price Shock Transmission

The second framework, drawn from open-economy macroeconomic literature on oil price pass-through and applied directly to Nigeria by Adebisi and Mordi (2012) in their dynamic stochastic general equilibrium model of oil price shocks and exchange rate pass-through, proposes that oil price shocks transmit into a domestic economy through identifiable, simultaneous channels rather than a single mechanism. These include a direct terms-of-trade channel, through which export earnings rise or fall with the international price; a fiscal channel, through which government revenue and spending capacity adjust, often with institutional lags created by production-sharing and crude-backed financing arrangements; an exchange rate channel, through which the value of the domestic currency responds to changes in dollar inflows; and a domestic pass-through channel, through which fuel and import prices feed into the general price level, with the speed and intensity of pass-through depending on the prevailing subsidy regime and exchange-rate management framework. Omotosho's (2019) extension of this framework to a subsidy-featuring New Keynesian model further demonstrates that the removal of fuel subsidies, while fiscally rational, amplifies the speed and visibility of pass-through from international prices to domestic consumers. This theory directly underpins the conceptual framework of transmission channels developed in section 2.1 above and provides the analytical



lens through which the results interprets the simultaneous, partially offsetting fiscal and inflationary effects of the 2026 conflict on the Nigerian economy.

2.3 Concept of Variable One: The American–Iran War as a Geopolitical and Economic Shock

The American–Iran war of 2026 is conceptualised in this study not merely as a military and diplomatic event but as a discrete geopolitical shock with quantifiable economic transmission properties. The conflict began with joint United States–Israel strikes on Iranian targets on 28 February 2026 and escalated through Iranian retaliatory strikes against Gulf energy infrastructure, the declared closure of the Strait of Hormuz, and a sustained reduction of Gulf crude output by more than eleven million barrels per day relative to pre-conflict levels by May 2026. As an economic variable, the war is best understood through three interlinked dimensions: its effect on the global price of crude oil and refined products, its effect on global shipping and insurance costs as a function of war-risk premiums and route diversions, and its effect on global risk appetite and capital allocation, as reflected in equity, bond, and currency market volatility. The conflict produced a stagflationary configuration in much of the global economy, with the World Bank cutting its 2026 global growth forecast to 2.5 percent, the lowest since the COVID-19 pandemic, even as headline inflation rose across both advanced and emerging economies. For exporting economies such as the Gulf States and Nigeria, the war simultaneously represented a source of revenue windfall and a source of domestic cost-push pressure, a duality that forms the analytical core of this study.

2.4 Concept of Variable Two: The Nigerian Economy

The Nigerian economy, as the second central variable of this study, is conceptualised along four structural dimensions relevant to its exposure to the American–Iranian war. First, Nigeria is Africa's largest crude oil producer, with output averaging 1.71 million barrels per day between April 2025 and April 2026, the highest level recorded in five years, and oil revenue continues to constitute a dominant share of federally collectable government income notwithstanding repeated diversification pledges. Second, Nigeria underwent a structural transformation in its domestic fuel market following the 2023 removal of the petrol subsidy and the subsequent ramp-up of the Dangote Petroleum Refinery to its full 650,000 barrels-per-day nameplate capacity by February 2026, a development that, in principle, positioned Nigeria to convert from a net importer to a net exporter of refined petroleum products. Third, Nigeria's monetary and exchange-rate framework had, by early 2026, achieved a measure of stabilisation following earlier reforms, with external reserves climbing to over \$50 billion, the highest in thirteen years, and headline inflation falling for eleven consecutive months to 15.06 percent in February 2026.



Fourth, and most consequential for this study, Nigeria's domestic refining capacity remained constrained not by the absence of physical infrastructure but by a persistent shortfall in crude feedstock allocation to the Dangote refinery from the NNPC, which supplied as few as five cargoes per month against a contractually anticipated thirteen to fifteen cargoes, a gap that forced continued reliance on imported and front-sold crude and limited the extent to which Nigeria's refining capacity could shield domestic consumers from the international price shock.

2.5 Review of Empirical Literature

A substantial body of empirical work has examined the relationship between oil price shocks and the Nigerian economy, although the literature specific to the 2026 American–Iran war episode is, by virtue of its recency, still emergent and concentrated in policy briefs, central bank communications, and financial sector outlooks rather than peer-reviewed journal articles. The studies reviewed below are organised thematically around oil-price-inflation linkages, exchange-rate dynamics, fiscal-revenue effects, and the domestic refining transition.

On the inflation-transmission theme, the Central Bank of Nigeria's 2026 Macroeconomic Outlook projected headline inflation decelerating to 12.94 per cent in 2026, down from an estimated 21.26 per cent in 2025, premised on continued monetary tightening and stable energy markets; however, this baseline projection was disrupted by the conflict, and subsequent National Bureau of Statistics releases recorded headline inflation rising for three consecutive months from 15.06 per cent in February to 15.38 per cent in March, 15.69 per cent in April, and 15.93 per cent in May 2026, with food inflation accelerating to 17.8 per cent and transport inflation to 17.1 per cent by May, increases that the Bureau and independent analysts attributed substantially to the pass-through of the March 2026 fuel-price shock linked to the Middle East conflict. CFG Advisory, a Lagos-based economic consultancy, subsequently revised its full-year inflation projection upward toward 20 per cent, citing a jump in pump prices of as much as 50 per cent and an increase in aviation fuel prices exceeding 100 per cent as the principal drivers of renewed cost-push pressure across transportation, logistics, and consumer goods.

On the topic of exchange rates, PricewaterhouseCoopers Nigeria's macroeconomic briefing noted that Nigeria's gross external reserves increased to \$50.45 billion in February 2026, the highest in thirteen years, which helped cover imports and protect against the inflation caused by currency depreciation that happened during previous oil shocks in Nigeria. BMI Research similarly assessed that Nigeria's relative naira stability rendered the economy comparatively less severely affected by the Middle East supply disruption than several other Sub-Saharan African economies, although the same analysis cautioned that currency stability alone could not substitute for structural reform of domestic refining and distribution logistics



and that the inflationary impact of higher fuel prices, while likely transitory, could be prolonged by persistent supply constraints. The Central Bank of Nigeria's own policy response, including the reduction of the Monetary Policy Rate from a tightening peak to 26.5 per cent during the early phase of the conflict, signalled official confidence that the inflationary pressure, though real, was not expected to be sustained indefinitely.

On the fiscal-revenue theme, the Nigerian Economic Summit Group and BMI Research produced divergent but directionally consistent estimates of the federation's revenue windfall. BMI's conservative modelling, based on an average crude price of approximately \$78 per barrel, projected an additional ₦6.8 trillion in oil revenue, while the Nigerian Economic Summit Group's higher estimate, contingent on sustained or escalating Middle East tensions, projected a potential windfall of up to ₦30.2 trillion. PricewaterhouseCoopers Nigeria calculated that, at the 2026 budget exchange rate of ₦1,400 per dollar, elevated prices implied gross potential federation oil revenue of approximately ₦28.3 trillion before deductions for crude-backed loan obligations, timing effects, and committed-volume constraints, cautioning that actual fiscal gains would fall short of this gross figure because Nigeria's crude production of 1.46 million barrels per day in January 2026 remained below the 1.84 million barrels per day budget assumption, and a portion of export proceeds was already encumbered by prior financing arrangements.

On the domestic refining transition theme, a quantitative study by Bwjournal employing an autoregressive distributed lag model and ordinary least squares regression on Dangote refinery production data from 2020 to 2025 found that increased refinery output exerted a statistically significant positive effect on Nigeria's national energy output, a strong negative effect on crude oil import volumes, and a moderate negative effect on regional fuel prices, with lagged production terms indicating cumulative benefits from sustained operational efficiency. This finding lends empirical weight to the proposition that Nigeria's capacity to insulate itself from future oil-price shocks of the kind generated by the American-Iran war depends critically on resolving the feedstock-allocation shortfall, since industry reporting throughout the conflict period documented that the Dangote refinery, requiring approximately 19.77 million barrels of crude per month to operate at full capacity, received only 29.21 million barrels against a requirement of 108.74 million barrels between October 2025 and mid-March 2026, a supply performance of just 26.9 per cent, even as Nigeria exported a combined 55.39 million barrels of crude in the first two months of 2026 alone.

Beyond the Nigeria-specific literature, the broader empirical scholarship on geopolitical oil shocks provides useful comparative grounding. Centre for Economic Policy Research analysis modelling the inflationary impact of the 2026 Iran war on the United States economy estimated that even a cautiously optimistic one-quarter closure of the Strait of Hormuz would



raise United States headline inflation by 0.6 percentage points and core inflation by 0.2 percentage points in 2026, while a more severe twenty per cent supply shortfall persisting for three quarters could raise headline inflation by as much as 1.8 percentage points. These estimates, while specific to the United States, corroborate the general proposition that supply-side oil shocks of the 2026 magnitude carry meaningful and persistent inflationary consequences even for diversified, dollar-denominated economies, reinforcing the expectation of more pronounced pass-through in import-dependent, oil-exporting economies such as Nigeria, where energy costs constitute a larger share of the consumption basket and of production costs across agriculture, manufacturing, and transport.

2.6 Summary of Literature Review

The reviewed literature establishes a coherent picture of the 2026 American–Iran war as a supply-side geopolitical shock that transmitted into the Nigerian economy through multiple, partially offsetting channels. The fiscal-revenue channel operated favourably for the federation account, generating estimated additional oil revenue ranging from ₦6.8 trillion to ₦30.2 trillion depending on the duration and intensity of the conflict, although actual realised gains were constrained by production shortfalls relative to budget assumptions and by crude-backed financing obligations. The inflation pass-through channel operated unfavourably for households, reversing eleven consecutive months of disinflation and pushing headline inflation from 15.06 percent in February 2026 to 15.93 percent by May 2026, with transport and food sub-indices bearing the brunt of the increase. The exchange-rate channel, in contrast to previous Nigerian oil shocks, proved comparatively stabilising, as accumulated external reserves and a more credible monetary framework prevented the kind of currency collapse that historically amplified imported inflation. Finally, the domestic refining transition channel emerged as the pivotal structural variable determining the extent of Nigeria's vulnerability, since the persistent gap between the Dangote refinery's feedstock requirements and its actual NNPC allocation meant that Nigeria's substantial new refining capacity could not be fully leveraged to decouple domestic pump prices from the international shock. The literature, while extensive on each of these dimensions individually, has not yet produced an integrated assessment that weighs these channels against one another within a single analytical framework specific to the 2026 conflict, a gap that the present study seeks to address.

3. Methodology

3.1 Research Design

This study adopts a descriptive, ex-post-facto research design grounded in the analysis of secondary macroeconomic data. The ex-post-facto design is appropriate because the event



under examination, the American–Iran war and its associated oil price shock, had already occurred and run its principal course by the time of writing, precluding any experimental manipulation of the variables of interest. The design permits the systematic description, comparison, and interpretation of macroeconomic indicators before, during, and after the onset of the conflict, thereby allowing inferences to be drawn about the direction, magnitude, and channels of transmission without claiming strict causal identification in the econometric sense. The descriptive component of the design is operationalised through trend analysis of monthly and quarterly time series on inflation, exchange rates, oil production, and external reserves, complemented by a narrative-comparative analysis of fiscal revenue projections published by reputable institutional sources during the conflict period.

3.2 Area of the Study

The area of the study is the Federal Republic of Nigeria, considered at the national macroeconomic level. Nigeria is selected as the area of study because it represents a structurally distinctive case among oil-exporting developing economies: it is simultaneously Africa's largest crude oil producer, a country that until recently was almost entirely dependent on imported refined petroleum products despite its crude wealth, and a federation in which oil revenue is constitutionally shared among multiple tiers of government, making the transmission of an external oil shock a matter of both macroeconomic and intergovernmental fiscal significance. While the study references global and regional comparators, including other Sub-Saharan African economies and major Asian oil importers, for contextual purposes, its empirical focus and policy recommendations are confined to the Nigerian national economy.

3.3 Population of the Study

Because this study relies on macroeconomic time-series and documentary data rather than survey or interview-based instruments, the population of the study is defined as the complete set of officially published and reputable institutionally verified macroeconomic data series relevant to the Nigerian economy and the global oil market for the period January 2024 to June 2026. This population comprises monthly inflation and consumer price index releases of the National Bureau of Statistics, exchange rate and monetary policy data of the Central Bank of Nigeria, crude oil production, export, and refinery-allocation data published by the Nigerian National Petroleum Company Limited, global crude oil price series for Brent and West Texas Intermediate benchmarks, and fiscal revenue projections and macroeconomic outlooks published by the Central Bank of Nigeria, PricewaterhouseCoopers Nigeria, the Nigerian Economic Summit Group, BMI Research, and comparable institutions. From this population,

the study purposively draws the specific indicators most directly relevant to each of the five transmission channels identified in the conceptual framework.

3.4 Method of Data Collection

Data for this study were collected exclusively through documentary and secondary sources, given the macroeconomic and time-bound nature of the phenomenon under investigation. Three categories of secondary sources were consulted. The first category comprises official statistical and policy publications, including National Bureau of Statistics inflation reports, Central Bank of Nigeria monetary policy communiqués and macroeconomic outlook publications, and Nigerian National Petroleum Company Limited mandate and production reports. The second category comprises reputable international and domestic financial-sector research, including publications by PricewaterhouseCoopers Nigeria, BMI Research, the Nigerian Economic Summit Group, the International Monetary Fund, the World Bank, and the Centre for Economic Policy Research. The third category comprises credible journalistic and newswire reporting from internationally recognised outlets, including Reuters, Bloomberg, CNBC, and the National Public Radio, used principally to establish the chronology and intensity of the conflict and its immediate market reactions. All data points cited in the empirical and findings sections of this study are attributed to their original source and, wherever possible, cross-validated across at least two independent sources to enhance reliability.

3.5 Method of Data Analysis

The study employs descriptive and comparative trend analysis as its principal method of data analysis. Monthly inflation, exchange rate, and oil production data are arranged chronologically to identify inflection points coinciding with the onset, escalation, and de-escalation phases of the conflict, allowing the study to associate observed changes in Nigerian macroeconomic indicators with specific conflict-related events, such as the initial strikes of 28 February 2026, the Strait of Hormuz closure, and the subsequent ceasefire negotiations. Comparative analysis is further employed to juxtapose pre-conflict baseline projections, such as the Central Bank of Nigeria's original 2026 inflation forecast of 12.94 percent, against the actual realised outcomes recorded after the conflict began, thereby isolating the conflict-attributable deviation from the counterfactual policy baseline. Where institutional sources offer divergent quantitative estimates, as in the case of fiscal-revenue windfall projections ranging from ₦6.8 trillion to ₦30.2 trillion, the study reports the range and discusses the underlying assumptions driving the divergence rather than adjudicating a single definitive figure, in keeping with the descriptive rather than econometric character of the research design. No inferential statistical testing, regression modelling, or hypothesis testing in the formal statistical sense is undertaken; the

analytical contribution of the study lies instead in the systematic organisation, triangulation, and interpretation of documented macroeconomic evidence within the conceptual framework of transmission channels developed in the study.

4. Major Findings and Discussion

4.1 Major Findings

The data reviewed for this study yield five major findings, each corresponding to one of the transmission channels identified in the conceptual framework.

4.1.1 Finding One: The Inflation Pass-Through Channel Reversed Nigeria's Disinflation Trend

Nigeria's headline inflation had fallen for eleven consecutive months to 15.06 percent in February 2026, the lowest level since November 2020, and the Central Bank of Nigeria's 2026 Macroeconomic Outlook had projected further deceleration to 12.94 percent for the year. Following the outbreak of the conflict, however, headline inflation rose for three consecutive months, reaching 15.38 percent in March, 15.69 percent in April, and 15.93 percent in May 2026. The month-on-month consumer price index recorded a 4.2 percent jump in March 2026 alone, the steepest monthly increase since January 2025, driven overwhelmingly by transportation costs, which rose 4.0 percent in a single month after having fallen 0.3 percent the previous month.

Table 4.1: Summary of the Inflation Trajectory throughout the Conflict Period.

Month (2026)	Headline Inflation (%)	Food Inflation (%)	Transport Inflation (%)
February	15.06	12.12	14.70
March	15.38	14.31	16.90
April	15.69	16.06	16.00
May	15.93	17.80	17.10

Source: National Bureau of Statistics, as reported by Trading Economics (2026).



4.1.2 Finding Two: The Naira Exhibited Relative Resilience Compared to Earlier Oil Shocks

In contrast to the 2016 and 2022-2023 oil shocks, during which sharp declines in oil revenue and dollar liquidity precipitated significant naira depreciation and a widening of the parallel-market premium, the 2026 conflict period was associated with comparative exchange-rate stability. Nigeria's gross external reserves rose to \$50.45 billion in February 2026, the highest level in thirteen years, surpassing the previous high of \$43.61 billion recorded in 2013, and analysts projected the naira would trade within a relatively narrow band of approximately ₦1,350 to ₦1,520 per dollar through the conflict period, with most forecasts clustering around ₦1,400 to ₦1,500. BMI Research explicitly identified this currency stabilisation as a key reason why Nigeria's economy was comparatively less severely affected by Middle East supply disruptions than several other Sub-Saharan African nations, since a stronger naira reduced the local-currency cost of any residual imported refined-product volumes even as international dollar prices rose.

4.1.3 Finding Three: The Federation Account Realised a Substantial but Contested Oil-Revenue Windfall

Elevated international crude prices generated a significant, if variably estimated, fiscal windfall for the Nigerian federation. PricewaterhouseCoopers Nigeria calculated that, at the 2026 budget exchange rate of ₦1,400 per dollar, gross potential federation oil revenue from the price surge approximated ₦28.3 trillion before deductions for crude-backed obligations and timing effects. BMI Research's more conservative scenario, premised on an average crude price of approximately \$78 per barrel, projected an additional ₦6.8 trillion, while the Nigerian Economic Summit Group's higher-end scenario, contingent on sustained or escalating tensions, projected a potential windfall of up to ₦30.2 trillion. The divergence across these estimates is attributable principally to differing assumptions about the duration of the conflict, the average realised crude price, and the extent to which Nigeria's actual production of approximately 1.46 to 1.71 million barrels per day could be sustained at or above the 2026 budget benchmark of 1.84 million barrels per day. BMI Research subsequently revised Nigeria's 2026 GDP growth forecast upward from 4.3 percent to 4.4 percent, attributing approximately one percentage point of GDP contribution to stronger-than-expected oil-sector performance.

4.1.4 Finding Four: Domestic Refining Capacity Could Not Fully Insulate the Pump-Price Channel

Although the Dangote Petroleum Refinery reached its full 650,000 barrels-per-day nameplate capacity in February 2026 and converted Nigeria into a net exporter of refined petroleum

products, the refinery's capacity to shield Nigerian consumers from the international price shock was undermined by a persistent shortfall in domestic crude feedstock allocation. The refinery required approximately 19.77 million barrels of crude per month to operate at full capacity but received only 29.21 million barrels against a cumulative requirement of 108.74 million barrels between October 2025 and mid-March 2026, a supply performance of just 26.9 percent. The Nigerian National Petroleum Company Limited supplied as few as five crude cargoes per month during this period, against a contractually anticipated thirteen to fifteen cargoes under the crude-for-naira arrangement, even as Nigeria exported a combined 55.39 million barrels of crude in January and February 2026 alone. NNPC subsequently increased its allocation to seven cargoes in May and eight cargoes, equivalent to roughly 6.8 million barrels, in April 2026, but industry representatives, including the refinery's own chief executive, characterised the increases as still substantially below the volumes required for optimal operation. This shortfall forced continued reliance on imported and front-sold crude valued at an estimated \$3.74 billion in 2025 alone, adding further pressure to foreign exchange demand and contributing to domestic pump-price volatility, which fluctuated between approximately ₦1,250 and ₦1,300 per litre during the peak of the global energy shock.

4.1.5 Finding Five: Monetary Policy Signalled Confidence Despite Renewed Price Pressure

Notwithstanding the renewed inflationary pressure documented above, the Central Bank of Nigeria proceeded to reduce its monetary policy rate to 26.5 percent during the conflict period, a decision that signalled official confidence that the inflationary pressure associated with the conflict was likely to prove transitory rather than entrenched, consistent with BMI Research's independent assessment that the inflationary impact of higher fuel prices was likely transitory in nature, albeit with the caveat that structural supply constraints could extend the duration of elevated prices. This finding suggests a degree of institutional learning relative to earlier oil shocks, insofar as the monetary authority did not resort to the kind of abrupt, large-scale tightening that characterised some previous episodes, instead relying on accumulated reserves and exchange-rate stability to absorb the bulk of the external shock while monitoring the inflationary pass-through for evidence of de-anchoring expectations.

4.2 Discussion of Findings

The findings collectively support the central thesis of this study, namely that Nigeria's vulnerability to the 2026 American–Iran war was structural rather than incidental and that the country's experience of the shock was characterised by a fundamental asymmetry between fiscal gain and household cost. The reversal of Nigeria's eleven-month disinflation trend,

documented in Finding One, demonstrates that the post-subsidy-removal pricing architecture, while fiscally rational in eliminating the substantial subsidy burden that had previously strained the federation budget, simultaneously created a direct and rapid conduit through which international crude price movements reach Nigerian household budgets via the transport and food distribution channels. This finding is consistent with the conceptual distinction drawn in Chapter Two between cost-push inflation channels and fiscal-revenue channels, and it illustrates that these two channels, while originating from the identical underlying price shock, operate with opposite welfare implications for different segments of Nigerian society: the federation account as fiscal beneficiary and the transport-dependent, food-purchasing household as fiscal and welfare casualty.

The relative naira resilience documented in Finding Two represents perhaps the most consequential structural difference between the 2026 episode and Nigeria's earlier oil-shock experiences. Whereas the 2016 and 2022-2023 episodes saw currency depreciation function as an amplifying mechanism that compounded imported inflation on top of the direct fuel-price effect, the accumulated external reserves and improved foreign exchange market transparency evident by early 2026 meant that the naira itself did not become a second, independent source of inflationary pressure. This suggests that Nigeria's investments in reserve accumulation and foreign exchange market reform between 2023 and 2026 yielded a measurable dividend in the form of reduced macroeconomic fragility when the next external shock, in this case geopolitical rather than domestic, materialised. It is important, however, to read this finding with appropriate caution: naira stability moderated rather than eliminated imported inflation, and several analysts, including CFG Advisory, projected that the cumulative pass-through effects could still push full-year inflation toward 20 percent if fuel-price pressures persisted, indicating that currency stability is a necessary but not sufficient condition for price stability in an economy where domestic pump prices are now fully market-determined.

The fiscal-revenue windfall documented in Finding Three confirms that Nigeria, notwithstanding its diversification rhetoric, remains structurally positioned to benefit from international oil price surges through the federation account, but the wide range of windfall estimates, from ₦6.8 trillion to ₦30.2 trillion, also reveals the fragility of these projections to assumptions about production volumes and conflict duration. The gap between Nigeria's actual crude production, ranging from 1.46 to 1.71 million barrels per day across the period under review, and the 2026 budget benchmark of 1.84 million barrels per day, means that the gross fiscal upside implied by higher prices was never fully realisable, a point reinforced by PricewaterhouseCoopers Nigeria's own caution that crude-backed and refinery-linked obligations would reduce the pace and scale at which higher oil prices fed through to federation revenues. This underscores a recurring theme in Nigerian fiscal management: production



volume risk, driven by pipeline vandalism, crude theft, and underinvestment in upstream infrastructure, can offset a meaningful share of the benefit that might otherwise accrue from favourable international price movements.

Finding Four, concerning the Dangote refinery feedstock shortfall, is arguably the most policy-salient result of this study, because it identifies a specific, addressable institutional bottleneck rather than a diffuse market force. The juxtaposition of Nigeria exporting 55.39 million barrels of crude in two months while its flagship domestic refinery operated at barely a quarter of its required feedstock allocation exposes an internal contradiction in Nigeria's energy policy: the country possesses both the upstream production and the downstream refining capacity necessary to substantially insulate its domestic fuel market from international price shocks, yet the contractual, logistical, and possibly commercial incentives governing the allocation of crude between export markets and domestic refiners have not yet been fully aligned to exploit this capacity. The incremental increases in NNPC allocation, from five to seven and then to eight cargoes across the conflict period, indicate that policy attention is being directed at the problem, but the persistence of the gap relative to the contractually anticipated thirteen to fifteen cargoes suggests that resolution will require either regulatory enforcement of domestic crude supply obligations under the Petroleum Industry Act or commercial renegotiation of the terms governing the crude-for-naira arrangement, rather than incremental administrative adjustment alone.

Finally, Finding Five, concerning the Central Bank of Nigeria's decision to ease its Monetary Policy Rate despite renewed inflationary pressure, reflects a judgement that the shock was supply-side and likely transitory rather than demand-driven and persistent, a judgement broadly corroborated by the partial unwinding of the oil price surge observed by late May 2026, when Brent crude fell approximately twenty percent from its 2026 peak amid optimism over ceasefire negotiations. This sequencing, in which prices spiked sharply in March, plateaued through April, and began easing by May, illustrates the importance of distinguishing between the peak intensity of a geopolitical shock and its more moderate, lingering aftereffects when calibrating monetary policy, and it suggests that the central bank's relatively measured response, rather than aggressive pre-emptive tightening, was a defensible reading of the available evidence at the time, though its ultimate appropriateness will depend on whether the easing of global oil prices in subsequent months is sustained.



5 Summary, Conclusion, and Recommendations

5.1 Summary

This study set out to examine the vulnerabilities, transmission channels, and policy implications of the 2026 American–Iran war for the Nigerian economy. Chapter One established the background to the study, noting that the conflict, which began with United States and Israeli strikes on Iran on 28 February 2026 and culminated in the closure and contested reopening of the Strait of Hormuz, produced a global oil price surge of more than fifty percent within weeks, and situated Nigeria's distinctive exposure within its dual identity as Africa's largest crude producer and a post-subsidy-removal fuel-importing and increasingly fuel-refining economy. Chapter Two reviewed the conceptual and empirical literature, clarifying the concepts of oil price shocks, transmission channels, exchange-rate pass-through, and fiscal federalism, and surveying empirical evidence on inflation, exchange-rate, fiscal-revenue, and refining-capacity dynamics during the conflict period. Chapter Three set out a descriptive, ex-post-facto research design relying exclusively on secondary documentary data drawn from the National Bureau of Statistics, the Central Bank of Nigeria, the Nigerian National Petroleum Company Limited, and reputable financial-sector research institutions. Chapter Four presented five major findings: a reversal of Nigeria's disinflation trend driven by transport and food price pass-through; relative naira resilience compared to earlier oil shocks; a substantial but contested fiscal-revenue windfall ranging from ₦6.8 trillion to ₦30.2 trillion in various estimates; a persistent Dangote refinery feedstock shortfall that prevented full insulation of the domestic pump-price channel; and a comparatively measured monetary policy response reflecting confidence in the transitory nature of the shock.

5.2 Educational Implication of the Findings

The findings of this study carry several implications for economics education and public financial literacy in Nigeria. First, the study demonstrates the pedagogical value of teaching macroeconomics through live, real-time case studies rather than exclusively through historical episodes such as the 1973 and 1979 oil shocks, since students and policy trainees can observe transmission mechanisms unfolding in real time through publicly available central bank and statistical bureau releases. Second, the study underscores the importance of incorporating fiscal federalism and intergovernmental revenue-sharing dynamics into Nigerian economics curricula, since a purely textbook treatment of oil price shocks that ignores the distribution of the federation account would miss a structurally important feature of how the shock's fiscal upside is allocated across federal, state, and local governments. Third, the study emphasises the educational value of distinguishing fiscal welfare from household welfare when teaching the effects of commodity price movements on oil-exporting developing economies, given the

demonstrated asymmetry in this study between federation revenue gains and household cost increases arising from the identical price shock. Educational institutions, professional economics bodies, and financial literacy programmes aimed at the Nigerian public would benefit from explicitly teaching this asymmetry, since public understanding of why rising oil prices can simultaneously mean a wealthier government and a more expensive transport fare is essential for informed civic engagement with energy and subsidy policy debates.

5.3 Conclusion

This study concludes that the Nigerian economy's experience of the 2026 American–Iran war confirms the persistence of structural, rather than merely cyclical, vulnerability to exogenous oil price shocks, notwithstanding meaningful improvements in macroeconomic management evidenced by exchange-rate stability and reserve accumulation between 2023 and 2026. The conflict transmitted into the Nigerian economy through a configuration of channels that produced simultaneously favourable and unfavourable outcomes: the federation account benefited from higher dollar-denominated export receipts, while households bore the cost of fuel and food price increases under a fully liberalised, subsidy-free pricing regime. The relative stability of the naira distinguished this episode favourably from earlier Nigerian oil shocks and demonstrated the value of the reserve buffers and foreign exchange reforms undertaken in the preceding years. However, the persistent shortfall in crude feedstock allocation to the Dangote Petroleum Refinery revealed that Nigeria's substantial new domestic refining capacity remains under-leveraged as an insulating mechanism against international price volatility, a gap that is institutional and contractual in nature rather than technically insurmountable. On balance, the study concludes that Nigeria weathered the 2026 conflict more resiliently than it weathered comparable shocks in 2016 and 2022–2023, but that this resilience was partial and uneven, leaving low-income, transport-dependent, and food-purchasing households disproportionately exposed to a shock from which the federal treasury simultaneously profited.

5.4 Policy Recommendations

Arising from the findings and conclusion above, the study recommends the following:

- i. **Strengthen domestic crude feedstock allocation enforcement:** The Federal Government, through the Nigerian Upstream Petroleum Regulatory Commission and the Nigerian National Petroleum Company Limited, should rigorously enforce the domestic crude supply obligations established under the Petroleum Industry Act, ensuring that the Dangote Petroleum Refinery and other domestic refiners receive crude allocations commensurate with their nameplate capacity and contractual entitlements, rather than the five-to-eight cargoes per month recorded during the conflict period

against a contractually anticipated thirteen to fifteen cargoes, so that future international price shocks can be more substantially absorbed by domestic refining margins rather than passed through in full to the pump.

- ii. **Expand fiscal buffers and stabilisation mechanisms:** The Federal Government should deepen and operationalise the Excess Crude Account and any successor sovereign wealth or stabilisation fund, channelling a defined proportion of windfall oil revenue arising from episodes such as the 2026 conflict into a buffer specifically earmarked for counter-cyclical social protection and fuel-price moderation during future price spikes, rather than allowing the full windfall to be absorbed into recurrent federation account distributions.
- iii. **Targeted social protection for transport and food price shocks:** Given that the inflationary impact of the conflict was concentrated in transport and food sub-indices, the Federal and State Governments should design targeted, time-bound transfer or transport-subsidy programmes, similar in spirit to measures adopted by other affected economies such as fuel rationing or tax credits, that can be activated rapidly during verified geopolitical price shocks without reintroducing a permanent, fiscally unsustainable petrol subsidy.
- iv. **Sustain and institutionalise external reserve accumulation:** The Central Bank of Nigeria should continue to prioritise the accumulation and prudent management of external reserves achieved between 2023 and 2026, recognising the demonstrated role of the \$50.45 billion reserve position in moderating naira depreciation and imported inflation during the 2026 conflict, and should formalise reserve-adequacy benchmarks explicitly linked to import cover for refined petroleum products.
- v. **Accelerate non-oil export diversification:** Recognising that the magnitude of Nigeria's fiscal exposure to oil price volatility, whether through windfalls or shortfalls, derives fundamentally from the continued dominance of crude oil in federally collectable revenue, fiscal authorities should accelerate the diversification of non-oil revenue streams, including value-added tax administration, company income tax compliance, and non-oil export promotion, so that future geopolitical shocks in distant regions exert a proportionally smaller influence on Nigeria's fiscal trajectory.
- vi. **Improve production-volume reliability:** The Federal Government and NNPC should intensify efforts to curb pipeline vandalism and crude oil theft and to attract upstream investment, given that Nigeria's actual production of 1.46 to 1.71 million barrels per day across the period under review persistently fell short of the 1.84 million barrels per day



budget benchmark, since closing this volume gap would allow Nigeria to capture a larger share of the fiscal upside during future price surges.

5.5 Limitation of the Study

This study is subject to several limitations that should be borne in mind when interpreting its findings. First, the study relies exclusively on secondary data and documentary sources rather than primary data collection, and the conflict period under review remained dynamic and partially unresolved at the time of writing, meaning that some figures, particularly fiscal-revenue windfall estimates and inflation projections for the remainder of 2026, are themselves projections subject to revision as more complete annual data become available. Second, the study's descriptive and comparative methodology does not permit the formal econometric decomposition of the relative statistical contribution of each transmission channel to observed changes in inflation or the exchange rate; a structural vector autoregression or similar econometric approach, while beyond the scope of this study, would be a valuable extension for future research. Third, because the conflict and its resolution were still unfolding during the period covered by this study, the long-run, post-conflict structural effects, particularly on Nigeria's refining investment trajectory and fiscal buffer accumulation, could not be assessed and would require a longer observation window. Finally, the study's focus on national-level aggregate indicators means that it does not capture sub-national, sectoral, or household-level heterogeneity in the distribution of the conflict's costs and benefits, an important avenue for future microeconomic and distributional research.

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