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Nigeria and the Strait of Hormuz Crisis: Urgent Fiscal and Energy Security Responses to a Global Oil Shock

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Executive Summary

The Strait of Hormuz, a narrow waterway between Iran and Oman is one of the world's most important oil transit chokepoints, handling about 20% of global crude and liquefied natural gas exports. Recent escalation of conflict involving the United States, Israel, and Iran and reported restrictions on maritime passage have raised fears of a partial or full closure of the strait, sparking sharp movements in global oil markets. In early March 2026, Brent crude prices jumped as much as 10% to around \$80 per barrel on fears of supply disruption, with analysts warning prices could rise above \$100 per barrel if the disruption continues.

For Nigeria, whose economy remains heavily dependent on oil for export earnings and government revenue, such a shock offers both potential benefits and serious risks. Higher crude prices could improve fiscal inflows and foreign exchange reserves in the short term, but global inflationary pressures and supply chain disruptions could undermine domestic economic stability, weaken consumer welfare, and exacerbate inflation.

To harness potential gains of the global oil shock and mitigate risks, Nigeria must act swiftly across several fronts. This brief hereby recommend among others that the National Assembly through its Senate and House Committees on National Planning and Economic Development, Senate and House Committees on Upstream, Midstream and Downstream Petroleum Resources, in collaboration with relevant stakeholders like the Nigerian National Petroleum Company Limited, the Ministry of Finance, The Central Bank Governor, Secretary General of the Federation, among others, may wish to convene a public dialogue on the strategies to be deploy in order to harness the benefits of oil price hike and also mitigate the potential traits of global inflation on Nigeria.

1. Introduction

The Strait of Hormuz is a strategic maritime corridor through which approximately 20–21 million barrels of oil per day pass. This is roughly 20% of global crude oil consumption. Disruptions to this route immediately affect global supply dynamics

and trigger market volatility¹. Recent geopolitical developments, including attacks and reprisals in the Middle East, have heightened concerns about the strait's stability. Major shipping operators have

¹ Reuters. (2026, March 1). Oil jumps 10% on Iran conflict and could spike to \$100 a barrel, analysts say. Reuters. <https://www.reuters.com/business/energy/oil-jumps-10-iran-conflict-could-spike-100-barrel-analysts-say-2026-03-01/?ref=chatgpt.com>

[il-jumps-10-iran-conflict-could-spike-100-barrel-analysts-say-2026-03-01/?ref=chatgpt.com](https://www.reuters.com/business/energy/oil-jumps-10-iran-conflict-could-spike-100-barrel-analysts-say-2026-03-01/?ref=chatgpt.com)



suspended traffic in the area, and oil markets have responded with sharp price increases².

Nigeria, although not geographically connected to the Strait, is intimately linked to global oil markets. According to the report by the National Bureau of Statistics (NBS), Crude oil accounts for over 85% of Nigeria's export earnings and roughly half of government revenue³. As such, changes in global supply and price conditions have direct implications for fiscal planning, exchange rates, inflation, and economic growth.

Consequently, this brief assesses the implications of a Strait of Hormuz disruption, the economic stakes for Nigeria, and identifies urgent legislative and executive actions needed to manage the opportunities and risks effectively.

2. Global Oil Market Risks and Price Dynamics

The strait's significance lies in the volume of oil it carries: disruptions could immediately remove millions of barrels per day from accessible supply, forcing markets to price in scarcity. Even speculative fears of a closure have already caused prices to surge by double-digit percentages in early March 2026. Analysts estimate that if the strait were effectively closed or highly restricted, global oil prices could move well above \$68 to \$90/\$100 per barrel due to lost supply and increased risk premiums⁴.

Higher crude oil prices filter through to global inflation because transportation,

manufacturing, and energy inputs become more expensive. Central banks may face renewed inflationary pressure that complicates monetary policy decisions. Energy importing countries, particularly in Asia and Europe, are particularly vulnerable to these secondary inflation effects, but even oil exporters can suffer if inflation outpaces revenue growth.

3. Nigeria's Exposure Channels

- i. Fiscal Revenue and Export Earnings: Higher global oil prices normally increase Nigeria's export receipts and fiscal revenues, strengthening the federal government's budget execution. Analysts note that geopolitical tensions tend to push crude prices upward, which could strengthen Nigeria's current account balance and foreign exchange liquidity⁵.

However, Nigeria's actual production output remains below potential due to infrastructure constraints, theft, and underinvestment in the upstream sector. This limits the extent to which the country can fully capture windfalls from higher prices.

- ii. Exchange Rate and Reserves: Short-term oil price gains can support foreign exchange inflows, potentially stabilizing the naira and rebuilding reserves. Yet if global inflation accelerates or demand weakens due to slower growth, these FX benefits may be offset by capital reversals and currency volatility.

² Reuters. (2026, March 1). Russia warns of oil choke due to closure of Strait of Hormuz. Reuters. <https://www.reuters.com/world/middle-east/russia-warns-oil-choke-due-closure-strait-hormuz-2026-03-01/?ref=chatgpt.com>

³ National Bureau of Statistic (NBS). (2025). Foreign Trade in Goods Statistics (Q1 2024). NBS. <https://www.nigerianstat.gov.ng/elibrary/read/1241511>

⁴ Ibid.

⁵ Businessday NG. (2026, March 1). Oil rally from Iran conflict may support naira but inflation risk looms. *Businessday* NG. https://businessday.ng/energy/article/oil-jumps-10-on-iran-conflict-and-could-spike-to-100-a-barrel-analysts-say/?utm_source=auto-read-also&utm_medium=web



- iii. Domestic Inflation and Cost of Living: Nigeria deregulated petroleum pricing in 2023, meaning global oil price increases are transmitted quickly to domestic fuel prices⁶. Higher global prices risk pushing up petrol and diesel costs, which in turn raise transportation costs, food prices, and general inflation — directly affecting households and businesses.
- iv. Structural Limitations: In previous oil price rallies, Nigeria has struggled to translate windfalls into long-term development due to weak refining capacity, over-reliance on oil exports, and lack of diversification⁷. Higher prices alone will not resolve these structural weaknesses.

4. Areas for Legislative Intervention

To harness potential gains of the global oil shock and mitigate risks, the Legislature and Executive must act swiftly across several fronts. This Brief hereby recommends as follows:

- ✓ The National Assembly through its Senate and House Committees on National Planning and Economic Development, Senate and House Committees on Upstream, Midstream and Downstream Petroleum Resources, in collaboration with relevant stakeholders like the Nigerian National Petroleum Company Limited, the Ministry of Finance, The Central Bank Governor, Secretary General of the Federation, among others, may wish to convene a public

dialogue on the strategies to be deployed in order to harness the benefits of oil price hike and also mitigate the potential traits of global inflation on Nigeria.

- ✓ The National Assembly through its oversight function may wish to advise the federal government, through the NNPC, SGF and the Minister of Finance on the need to strengthen the excess crude account and other stabilization mechanisms to absorb revenue volatility. Also a need to invest oil windfall revenue in infrastructure, agriculture, manufacturing, and digital economy sectors to reduce dependence on crude oil
- ✓ The National Assembly may utilize oversight function to enact budget rules that prioritize savings of windfall revenue rather than expanding recurrent expenditure.
- ✓ The Federal Government may wish to expand refining capacity in Nigeria and reduce dependence on imported refined products to insulate domestic markets from global price swings.
- ✓ The Central Bank of Nigeria may wish to collaborate with fiscal authorities to manage exchange rate and inflationary pressures without undermining growth as a result of the oil price hike.
- ✓ The Nigerian Government, through the NNPC and Tanta Security Services may wish to address oil theft, vandalism, and underinvestment that prevent Nigeria from increasing actual production to capture pricing windfalls.

⁶ Akanji, M & Olarenwaju, F. (2024). Research Insight: Evaluating the role of deregulation in petrol pricing in Nigeria. *Businessday*. NG. <https://businessday.ng/backpage/article/research-insight-evaluating-the-role-of-deregulation-in-petrol-pricing-in-nigeria/>

⁷ NigeriaMag.com. (2024). Effects of oil prices on the Nigerian economy. *NigeriaMag*. <https://nigeriamag.com/effects-of-oil-prices-on-the-nigerian-economy/>



5. Conclusion

The ongoing geopolitical tensions impacting the Strait of Hormuz and the consequential shock to global oil prices, present Nigeria with a dual challenge: potential revenue gains but also heightened inflation risks and

economic volatility. While higher oil prices can provide temporary fiscal relief, Nigeria's future resilience depends on prudent revenue management, structural reforms, diversified growth strategies, and a coordinated legislative and executive response that turns oil windfalls into sustainable development outcomes.

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