

## **EFFECTS OF DOLLARIZATION ON CONSUMPTION AND BALANCE OF PAYMENT EXPENDITURE IN NIGERIA**

**1Dr. Saviour Sebastian Udo and 1Mr. James Uffot James**

*1Department of Economics, Akwa Ibom State College of Education, Afaha Nsit, Akwa Ibom State,  
Nigeria*

[sasedo2016@mail.com](mailto:sasedo2016@mail.com)

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**ABSTRACT:** *The study examined the impacts of dollarization on BOP and Consumption expenditure in Nigeria. Consequently, specific objectives were formulated as follows: accessing the impact of dollarization on balance of payment position in Nigeria and examining the impact of dollarization on consumption expenditure in Nigeria. Since the data were time series data, they were subjected to ADF test to ascertain the level of stationarity and the result shows mixed order of integration (order zero and one). Based on this scenario, the study decides to estimate the equations using the autoregressive distributive lag (ARDL) co-integration technique. The result shows a positive impact of dollarization on balance of payments. The result also shows that domestic interest rate and exchange rate have positive and significant impact on balance of payment. This means, an increase in exchange rate has severe impact on balance of payments as indicated by the coefficients of the variable in the short run. The statistical significance of the variable further confirmed its impact on the balance of payments. From the outcome of the consumption expenditure equation, dollarization has both positive and negative impact on consumption expenditure. This is as a result of the fact that most of the consumer goods in Nigeria are made of imported foreign goods and as exchange rate falls consumption expenditure falls. The inflation rate does not have a statistically significant impact on consumption because if consumers expect that prices will rise in the near future; they hasten to spend large sum out of a given income to take advantage of current low prices.*

**KEYWORDS:** Dollarization, Balance of Payment, Exchange Rate, Inflation Rate and Consumption.

### **1.0 Introduction**

In recent times dollarization has almost taken over the area of Economics and many institutions like the Central Banks of many nations. This scenario has affected macroeconomic policies of many countries. The term “dollarization” can also be seen as the replacement of domestic currency with foreign currency mostly dollar so as to ease economic dealings in an economy by various economic mediators in connection with the level of economic activities. This can also be referred to currency substitution (CS).

Because of predominant and obstinate macroeconomic instability in countries of the world, financial institutions, experts and governments of nations resort to guarding the actual value of their wealth by increasing their holdings of foreign currency. Because of economic imbalances between the developed and less develop nations, most transaction are done in foreign currency. Looking at Nigeria as a case study, most contracts awarded by government are done in US dollars and even some of our ministers were paid in dollars. The Nigerian government will employ a foreigner and pay them in dollars. Economic crises and collapses in the domestic structural economic dynamics can be caused by currency fluctuations, large debt burdens, and unmanaged inflation rate. From the above illustrations, macroeconomic stability controls interest rate fluctuations. It is on this premise that Piontkovsky (2003) opined that the dollarization otherwise known as currency substitution poses more challenge to monetary authorities in implementing their goals. This situation will cause financing of deficit budget to become more inflationary. Therefore, to bridge the fiscal gap it requires a higher growth of the monetary base. The way the managers of the economy set the structure of dollarization, makes it more interesting. This is to say, the turning of many economies to see dollar as the only currency that keep an economy growing, makes the macroeconomic atmosphere defective in most unindustrialized economies.

Worthy of note is between 1980s and 1990s, where many countries in Asia and Africa were known for colossal depreciation of their currencies as they made effort to reduce the effect of black market for

foreign exchange which had been in existence for many years (Ekpo, 2020). Studies reveals that consumption according to Alimi (2013) takes the major percentage of the Gross Domestic Product (GDP) in most developing countries. This consumption expenditure has affected between 50% and 70% of spending in most economies. Experience in Nigeria reveals that, in the 1980's, 1990's, 2000's and in the 21<sup>st</sup> century, average aggregate consumption expenditure stood at average of 75, 88.8, 83.9 and 84.2 per cent, respectively (CBN, 2020). Records also indicated that, average private investment expenditure was 18.7%, 11.5%, 11.5% and 12.0% respectively for GDP, within the same period, i.e. between 1980 and 2021. Records further reveals that balance of payment (BOP) for the same periods stood at between - 2.6% and 3.6% respectively (CBN. 2019).

In the Keynesian transaction demand motive for holding money, a theoretical relationship is established to exist between agents' preference for foreign currency and demand for consumables by households. In the theory, consumption is seen as a critical and the largest component of aggregate demand that exerts tremendous influence on general economic performance through the mechanism of the multiplier (Afonso, 2000). The theory also opined that, acute inflation period brings different categories of agents affected unreasonably by the bad effects of inflation on their purchasing power. By this it means that, agents with higher income would mostly have access to many leverages including substituting external currency for domestic currency. Those at the lower strata of society who are by far the greater segment, the low-income groups and who have no alternative to the biting effects of inflation would mostly want to discharge their idle balances instead of exposing it to the menace of depreciation. By this it means that, aggregate consumption in the economy will be affected.

However, those with higher income looking for safe environment in such uncertain economic environment would be constrained by ineptitudes in the capital market, which should be a natural resort in such times. Alemán (1995) in a publication posited that: "due to the absence of capital markets in general and well-established and efficient capital markets in particular in almost every developing economy, individuals in this case are only able to hold their savings or their assets in the form of domestic currency. If this domestic currency is forced to depreciate continuously (i.e., if the inflation

rate is constant, and positive) then the opportunity cost of holding real monetary balances will increase continuously. The theory also opined that investment demand is affected by agents' preference for foreign currency. It was equally opined in the theory that, since dollarization has implications for monetary policy mostly as it affects the mobilization of savings, investment would be conceded by the inadequacy of savings. This is because agents may not be having confidence in monetary policy and as such may want to hoard their money balances in other stable and hard currencies to protect their wealth. This will make the process of effective financial intermediation to suffer setbacks and have negative implications on the nation (Nyong, 2019).

Considering the above scenario, this study offers to integrate in the dollarization model other measures of macroeconomic performance not considered in other studies reviewed. The model will include: economic performance through spending (consumption and investment expenditures), and balance of payments (BOP) equilibrium. The choice of these is because consumption is regarded by many literatures as a large component of aggregate demand and is noted to be about two-third of all spending and hence the response of consumption to changes in income is a vital component in macroeconomic analysis. Also, the choice of BOP as integrated variable in the model is because, the major monetary policy objective in Nigeria is maintaining a healthy BOP position thus improving standard of living of the citizenry. These are the reasons for this study and gaps to be filled in relation to existing literature.

### **1.1 Objectives of the study**

The objectives of this study are to examine the impact of dollarization on balance of payment position in Nigeria and on consumption expenditure in Nigeria

### **2.1 Theoretical literature**

The theories to consider in this context include: The Keynesian money demand theory, and money in-the-utility function.

#### **2.1.1 Keynesian theory of money demand**

This theory was propounded first by John M. Keynesian in 1936 in his well-known book, “The General Theory of Employment, Interest and Money” (1936). The theory opines that demand for money is the desire for holding financial assets in the form of money by the economic agent.

The theory argued that people prefer to hold money in other to meet up with their day-to-day transactions of personal and business exchange (transaction demand for money). The Precautionary motive relates to the desire to provide for contingencies requiring sudden expenditures and for unforeseen opportunities of advantageous purchases. Both individuals and businessmen keep cash in reserve to meet unexpected needs. While individuals hold some cash to provide for illness, accidents, unemployment and other unforeseen contingencies, business keeps cash in reserve to meet up with unfavorable conditions or to gain from unexpected deals. The theory opined that the precautionary demand for money is also a function of the level of income.

The speculative motive implies that economic agents hold money in order to secure profit. Money held for speculative purposes is a liquid store of value which can be invested at an opportune moment in interest-bearing bonds or securities. Bond prices and the rate of interest are inversely related to each other. In the argument, Keynes argued that low bond prices are indicative of high-interest rates, and high bond prices reflect low-interest rates. A bond carries a fixed rate of interest.

### **2.1.2 Money in-the-Utility Function**

This theory was put forward by Sidrauski (1967). The theory popularly known as “MIUF theory” argued that “people have a tendency to hold certain amount of cash because they derive utility from holding it”. the MIUF theory assumes that money yields utility at every function. The model enables researchers to study the impact of money on the real economy, impact of money on prices as well as optimal rate of inflation. In a similar case, Poterba and Rotemberg (1986) in their argument maintain that the convenient fiction that movements in per capita consumption, as well as real asset holdings, can be attributed to the optimizing behaviour of a rational representative consumer. Thus, having constant preferences, and derives utility by consuming and by holding assets. This means that, households’ income can be spent on consumption, invested as capital, saved as bonds or kept as money.

## **2.2 Review of Empirical Literature**

Saviour, Salamat and James (2024) in their study examined the impact of currency substitution on private investment expenditure in Nigeria. Central Bank of Nigeria (CBN) yearly statistical bulletin formed the major source of data for their study. The study employed the ARDL estimation technique to estimate the long and short run parameters. The results of the study showed that domestic interest rate (DIR) coefficient has a negative relationship to the private investment with changes in currency substitution in Nigeria. Based on the above findings, the study therefore suggested that government should through its policy makers strengthen the domestic currency for effective interest rate policy to invoke greater confidence among domestic private investors to induce increased investment and growth.

Saviour, Ferdinand, Jacob (2022), in their study investigated the effects of selected macroeconomic variables on stock market performance in Nigeria. The study employed time-series data obtained from the Central Bank of Nigeria's statistical bulletin and World Development Indicators. Stock market performance was measured using the all-shares index while the identified macroeconomic variables included GDP growth, broad money supply, exchange rate, savings interest rate, and inflation rate. An Autoregressive Distributive Lag (ARDL) estimation technique was used to establish the long run relationship among the variables, and it was revealed that a long run relationship existed among the variables in the estimated model. The result shows that macroeconomic variables such as gross domestic product, broad money supply, exchange rate, and savings interest rate have a positive effect on stock market performance in Nigeria. On the other hand, the results showed that the inflation rate has a negative effect on stock market performance in Nigeria. Predicated on the result, the study recommended that policies to increase gross domestic product, exchange rate, interest rate, and money supply should be implemented because they can lead to an improvement in the performance of the stock market, while the inflation rate should be maintained at a single digit to prevent its negative effect on the performance of the stock market in Nigeria.

Adom, Sharma and Morshed (2006) in their study examined the presence of currency substitution in eight African countries of Egypt, Morocco, Ghana, Kenya, South Africa, Tunisia, Zambia and Nigeria from 1976 to 2005. The study used both regional and US dollars as the measured currency. The outcome divulges the prevalence of currency substitution in Nigeria and South Africa out of the eight countries reviewed, with the US dollars as the anchor currency

Effiom and Ubi (2010) examine the vulnerability of the Nigerian economy to currency substitution using annual time series data from 1970 to 2008. They used vector error correction model (VECM). The study used exchange rate and US treasury bills rate variables as proxies for CS, they showed that with persistent inflation and depreciation of the naira occasioned by exchange rate instability and monetary policy inconsistency, the Nigerian economy is vulnerable to CS.

Adamu (2016) used the Johansen cointegration test and Error Correction Mechanism (ECM) to find out the existence, extent of currency substitution and its effects on the demand for money in Nigeria. The study used time series data for the period 1980 to 2014, it was found out that the expected rate of depreciation, inflation rate, election period, and crude oil price as well as foreign rate of interest determine the extent of currency substitution in Nigeria.

Kumamoto and Kumamoto (2019) adopted the Threshold ARCH model to examine how currency substitution diffuses foreign monetary policy shocks to domestic nations and appraised how the central bank retorts to real exchange rate actions in three inflation-targeting nations of America under currency substitution, namely Chile, Mexico, and Peru, from 2000 to 2011. The result of the study revealed that the degree of currency substitution is higher in Mexico, while it is insignificant in Chile and Peru. The result also revealed that domestic monetary policy had influenced the domestic economy through the real interest rate channel. However, the foreign monetary policy had a significant impact in Mexico, but had insignificant impact in Chile and Peru.

### **2.3 Research Gap**

Based on the literature reviewed above, there are very few studies carried out in Nigeria on dollarization but the few focused on determining the presence of dollar in Nigeria, others investigated its causes,

while few sought to examine its effects on either the demand for money in Nigeria or its impact on macroeconomic performance using inflation rate and GDP as a proxy for economic performance. The impact of dollarization on other indicators of macroeconomic performance, like balance of payment and consumption in Nigeria has not been examined to the best of our knowledge. The gap in this study is to establish a nexus between dollarization and these variables.

### **3. RESEARCH METHODOLOGY**

#### **3.1 Research Design**

The study uses the quasi experimental design approach (empirical analysis) to analyze the relationship between dollarization and macroeconomic performance. This is to enable the researcher describe the phenomenon in context and establishes a functional relationship between the dependent and explanatory variables. Since the study is on the effect of dollarization on macroeconomic performance, two equations are used to capture balance of payment and consumption expenditure in the model as follows:

$$\text{BOP} = f(\text{DL}, \text{CPI}, \text{DIR}, \text{EXR}, \text{FIR}, \text{Y}) \quad (1)$$

$$\text{CONS} = f(\text{DL}, \text{CPI}, \text{DIR}, \text{EXR}, \text{FIR}, \text{Y}) \quad (2)$$

Where:

BOP = Balance of payment proxied by current account balance

CONS = Aggregate consumption expenditure

DL = Dollarization index proxied by (FCD/M2)

EXR = Real Exchange Rate

CPI = Consumer price index

DIR = Domestic Interest Rate (proxied by real interest rate)

FIR = Foreign Interest rate proxied by US Treasury Bills Rate

Y = Real income proxied by real gross domestic product (RGDP)

The econometric specification of equations assumes the form:

$$\text{BOP} = \alpha_0 + \alpha_1\text{DL} + \alpha_2\text{EXR} + \alpha_3\text{CPI} + \alpha_4\text{FIR} + \alpha_5\text{DIR} + \alpha_6\text{RGDP} + \mu_1 \quad (3)$$

$$\text{CONS} = \partial_0 + \partial_1\text{DL} + \partial_2\text{EXR} + \partial_3\text{CPI} + \partial_4\text{FIR} + \partial_5\text{DIR} + \partial_6\text{RGDP} + \mu_2 \quad (4)$$

Where:

$\mu$  = Stochastic error term

$\alpha_0$  to  $\alpha_6$  and  $\partial_0$  to  $\partial_6$  are the parameters to be estimated.

### 3.2 A priori Expectation

On a priori  $\alpha_0, \alpha_1, \alpha_2, \alpha_4, \alpha_5, \alpha_6 > 0$  and  $\partial_0, \partial_1, \partial_2, \partial_4, \partial_5, \beta_5, \beta_6 > 0$  while  $\alpha_3, \partial_3, \beta_3 < 0$

### 3.3 Data sources

The study used secondary time series data gotten from CBN statistical bulletin of various issues, CBN annual statement of account (2016), naira metrics (2016), World Development Indicators (2018), knoema.com as well as indexmundi.com. while data for US treasury bills (TB) proxy for foreign interest rate (FIR) were sourced from the Board of Governors of the Federal Reserve System (US).

### 3.4 Model estimation procedure

Since time series data is used in this study, preliminary tests on the variables like unit root is use to test the stationarity properties of all the data to ensure that the estimated result are not spurious and that estimated parameters from the specified models are valid and consistent. The study also test for any long run relationship among the variables using the Autoregressive Distributed Lag (ARDL) Bound testing approach. The ARDL estimation technique is employed to estimate the long and short run parameters.

**Table 1: Unit root test result for Augmented Dickey Fuller**

Variables	ADF		
	Levels	First difference	Remark
<b>BOP</b>	-100.31	-108.44	I(0)
<b>CPI</b>	3.30	-3.55	I(1)
<b>DL</b>	-3.03	-5.48	I(1)
<b>DIR</b>	-6.47	-7.27	I(1)
<b>EXR</b>	-1.22	-3.82	I(1)

<b>FIR</b>	-4.56	-3.66	I(0)
<b>CONS</b>	-2.34	-8.33	I(1)

**Source:** Author`s computation, 2025

The Augmented Dickey Fuller (ADF) was employed to determine the stationarity properties of the variables. The null hypothesis which represent the existence of unit root was tested against the alternative, i.e. the absence of unit root. This results shows that, the ADF test results are a mixture of  $I(0)$  and  $I(1)$  series. This means that they are integrated of different orders. For instance, BOP and FIR are stationary at levels, while CPI, DIR, CONS, EXR and DL are stationary after first differencing.

**Table 2: ARDL long run results of BOP equation**

<b>Variable</b>	<b>Coefficient</b>	<b>Std. Error</b>	<b>t-Statistic</b>	<b>Prob.</b>
LOG(CPI)	-0.42166	0.095178	-4.43025*	0.0001
LOG(DL)	-0.17252	0.058294	-2.95943*	0.0052
LOG(DIR)	-0.04444	0.086091	-0.51623	0.6086
LOG(EXR)	-0.12148	0.054982	-2.20946*	0.0331
LOG(FIR)	0.237823	0.073602	3.231225*	0.0025
C	-10.1843	23.95511	-0.42514	0.6856
CointEq(-1)	-0.66695	0.119422	-5.58484*	0.0013
R <sup>2</sup>	0.942899	D-W	2.423537	
Adjusted R <sup>2</sup>	0.685945	F-Stat.	13.669518	

**Note:** \* Implies significance at 5 per cent level of significance.

**Source:** Author`s computation, 2025

The ARDL short run result of the balance of payments (BOP) equation is presented in table 2. From the result it can be seen that the one- and two-years lags of balance of payments has a significant impact on balance of payments in the current year. The one-year lag of BOP has a negative effect on BOP in the current year, while the two-year lag of BOP has positive impact on BOP in the current year. It can also be seen that the current and one-year lag of inflation (CPI) has a positive and significant impact on BOP, while the two-year lag of BOP has a negative and non-significant impact on BOP. The result indicates that dollarization index (DL) in the current year has a positive and significant impact on BOP, while its one- and two-year lags have a negative and significant impact on BOP. Domestic interest rate (DIR) and its one-year lag have a negative effect on BOP, while the two-year lag of DIR has a positive relationship with BOP. However, the impact of DIR on BOP is not statistically significant, while its lags have a significant impact on BOP. Exchange rate (EXR) has a negative and non-significant impact on BOP. On the other hand, the one- and two-year lags of EXR have a positive and significant impact on BOP. Foreign interest rate (FIR) and its one-year lag have a statistically significant impact on BOP. The impact of FIR is negative, while the impact of its lag is positive. The two-year lag of FIR has a positive but non-significant impact on BOP. Finally, the error correction coefficient (CointEq(-1)) is negative and statically significant. The adjusted R-squared of 0.68 indicates that about 68 percent of variation in the BOP is explained by the regressors, 32 percent was unexplained which may be accounted for by other factors not included in the model. The F-statistic of about 13.66 shows that all the variables in the model are together as a group statistically significant. This means that the model has a good fit.

Durbin-Watson (D-W) statistic of 2.423 indicates no autocorrelation in the model. Therefore, the results can be used for economic forecast and economic policy.

The ARDL results of the balance of payments (BOP) equation is also presented in table 2. From the result, it can be seen that DL, CPI, EXR and DIR has a negative impact on BOP in the long run, while FIR exhibit a positive relationship. This implies that, a 1% increase in the variables (DL, CPI, EXR, and DIR) will cause the BOP to reduce by 17.2%, 42.2%, 12.1% and 4.45 respectively. Similarly, a 1% increase

in Foreign interest rate (FIR) variable will lead to increase in BOP by 23.8% and 42.6% respectively. This indicate that, when FIR increases, the current account of Nigeria will increase.

**Table 3: ARDL long run results of consumption equation**

Variable	Coefficient	Std. Error	t-Statistic	Prob.
LOG(CPI)	0.5124	0.12049	4.25262*	0.0054
LOG(DL)	0.260779	0.070801	3.683265*	0.0103
LOG(DIR)	-0.11143	0.084684	-1.31582	0.2363
LOG(EXR)	-0.13965	0.120757	-1.15646	0.2915
LOG(FIR)	-0.064	0.032191	-1.98806	0.094
C	0.6098	1.530966	0.398311	0.7042
CointEq(-1)	-0.64816	0.267864	-2.41974*	0.0203
R <sup>2</sup>	0.996601	D-W	2.598334	
Adjusted R <sup>2</sup>	0.981307	F-Stat.	65.16295	

**Note:** \* Implies significance at 5 per cent level of significance.

**Source:** Author`s computation, 2025

The ARDL result of the consumption model is presented in table 3. From the result it can be seen that the one and two-year lags of consumption expenditure (CONS) have a positive and significant impact on consumption expenditure in the current year. It can also be seen that currency substitution (DL) and its one-year lag have a negative and statistically significant impact on CONS, while the lag of DL has a positive and non-significant impact on CONS. Domestic interest rate (DIR) and foreign interest rate (FIR) have a positive and significant impact on CONS. The lags of DIR have a positive and non-

significant impact on CONS, while the lag of FIR has a negative and non-significant impact on CONS. On the other hand, aggregate consumption expenditure equation result as presented in table 3 shows that DL, and CPI has a positive and statistically significant long-run impact on CONS, and FIR has a negative and non-significant long-run impact on CONS. Again, the implication of this is that a 1% increase in the variables will lead to an increase/(decrease) in aggregate consumption expenditure by 51.2%, 26.1%, 1.9%, (11.1%), (13.9%), and 6.4%) respectively

From the result it can also be seen that exchange rate (EXR) has a negative and significant impact on CONS. However, the lags of EXR have a negative and non-significant impact on CONS. The inflation rate (CPI) and its lags do not have a statistically significant impact on CONS. Finally, the error correction coefficient (CointEq(-1)) is negative and statically significant. This satisfies the a-priori criteria and implies that the model has a rapid speed of adjustment because 64.81 per cent of the disequilibrium in the short-run is corrected in the long-run.

The adjusted R-squared of 0.98 indicates that about 98 percent of variation in the BOP is explained by the regressors while only 2 percent was unexplained which may be accounted for by other factors not included in the model. The F-statistic of about 65.16 shows that all the variables in the model are together as a group statistically significant. This means that the model has a good fit. Durbin-Watson (D-W) statistic of 2.598 indicates no autocorrelation in the model. Therefore, the results can be used for economic forecast and economic policy.

#### **4. Discussion of Findings**

The result of this study showed that the coefficient of dollarization is found to be negatively related to balance of payment. This suggest that dollarization impacts adversely on Nigeria's balance of payment position. This could be attributed to decrease in the wealth of residents holding foreign currency denominated deposit in the presence of the depreciation of domestic currency, thereby, resulting to a more stable capital market that put to an end sudden capital outflows, and a balance of payment that is less prone to crises.

Exchange rate was found to be negatively related to balance of payment, and consumption expenditure. This shows that, there is a negative relationship between exchange rate and the dependent variables, indicating that higher exchange rate worsens the balances of payment position as well as consumption expenditures. Investors in foreign securities or other assets take into consideration the likely movement in exchange rate with the currency of the target country and weigh the country risk together with the other risk of investing. Thus, this fluctuation affects the value of investments made in a foreign country. The coefficient of consumer price index (CPI), a measure for inflation was found to be positively related to balance of payment, and consumption in this study. It was discovered that, on the balance of payment equation, it was statistically significant and statistically insignificant in the consumption equation. A high inflation rate destabilizes price levels, making it far more difficult for investors to accurately predict future market behaviour.

According to the result, foreign interest rate (FIR) has significantly impacted on balance of payments and consumption expenditure. The coefficient of FIR is negatively related to balance of payment, and positively related to consumption. The positive sign of foreign rate of interest suggest that economic agents tend to demand for domestic currency in order to increase their foreign currency assets denomination.

Finally, the domestic interest rate (DIR) coefficient shows that it is negatively related to balance of payment. The ARDL coefficients meet the three criteria for its acceptability given that it is negative, fractional and statistically significant. Consequently, the estimated result confirms the presence of relationship among the variables in the models. It also shows that the speed of adjustments is high in all the estimated models. The values of the adjusted R-squared implies that the models have good fit as the independent variables have high explanatory power. The Durbin-Watson statistic connotes absence of autocorrelation in the estimated equations.

## **5. Summary and Recommendations**

### **5.1 Summary**

The study examined the impact of dollarization on BOP and consumption expenditures in Nigeria from 1981-2025. It adopts the autoregressive distributive lag in analyzing the models. In addition, the study reveals both positive and negative relationship between dollarization, domestic interest rate, exchange rate, foreign interest rate and macroeconomic variables such as balance of payments and consumption expenditure. It means that the continuous substitution of the naira for foreign currencies such as dollar, pound sterling and euro stand to worsen strength of our domestic currency and this is the reason our currency is not strong in international transaction. Based on these results, the study concludes that any economy with prevailing and persistent macroeconomic instability like Nigeria, the residents are likely to resort to protecting the real value of their wealth by increasing their holdings of foreign currency and hence causing economic imbalances.

## **5.2 Recommendations**

Based on the empirical findings and the conclusion drawn, the study recommends that: Efforts should be made to strengthen the domestic currency by policy makers. This can be done through a combination of fiscal and monetary policies; fiscal policies to boost productivity, reduce frivolous imports, and monetary policies to regulate and stabilize the monetary sector. Monetary authority should ensure that effective and efficient policy control on inflation, and exchange rate is put in place to reduce the rate of currency substitution in Nigeria, thereby, boosting economic agent of domestic consumption. There is need to check mate the disparity between the foreign exchange market and the parallel foreign exchange market by the monetary authority in other to achieve the objective of having a realistic exchange rate.

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