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Monetary Policy and Household Consumption Expenditure in Nigeria. An Auto-regressive Distributed Lag (ARDL) Approach

Memorie Suotor¹, Chidi Wosu^{2*}

1. Department of Economics, Faculty of Social Sciences, Ignatius Ajuru University, Rumuolumeni, Port Harcourt, Rivers State, Nigeria
2. Department of Economics, Faculty of Social Sciences, Ignatius Ajuru University, Rumuolumeni, Port Harcourt, Rivers State, Nigeria

* Correspondence: wosuchidi73@gmail.com

Abstract: The study investigates monetary policy and household consumption expenditure in Nigeria from 1980-2023. The study used variables like household consumption expenditure, credit reserve ratio, liquidity ratio, monetary policy rate, minimum rediscount ratio, open market operation and treasury bill. The study utilized the descriptive statistics, unit root test, co-integration test and Autoregressive Distributed Lag (ARDL) test. The result reveals that all the variables signposted negative relationship with Household consumption expenditure (HCD) and statistically significant at 5 percent level of significance. The study miens at monetary policy and household consumption expenditure in Nigeria using ARDL method and the study concludes that there is a significant impact of monetary policy on consumption expenditure in Nigeria especially since all variables seem to appear statistically significant at 5 % level of significance. The study variables had negative impact of credit reserve ratio (CRR), open market operation (OMO), liquidity ratio (LQR), Treasury bills (TRB), monetary policy rate and minimum rediscount ratio on consumption expenditure and this implies that they significantly reduces household consumption expenditure in Nigeria but they are all statistically significant at 5% level of significance in Nigeria.

Keywords: Household, consumption, expenditure, credit reserve ratio, liquidity ratio

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1. Introduction

1.1 Background to the Study

Consumption expenditures capture the general process of consumption, which is the use of goods and services to satisfy human needs. Economists such as Keynes believe consumption expenditure to be the most important short-run determinant of economic performance and a primary component of aggregate demand [1]. Keynes argued that individuals could end up damaging production by limiting current expenditures by hoarding money. And most official aggregate metrics, such as gross domestic product (GDP) are dominated by consumption expenditure. Efforts by the central bank and policymakers geared towards consumption expenditure usually come through the instruments of monetary policy, which include direct and indirect instruments. The direct instrument, also known as qualitative instruments, confers on the monetary authority the power to regulate the terms on which credit is granted to a specific sector, which includes moral suasion, selective credit control, and prudential guidelines. While the indirect instruments are designed to control the volume of bank credit in the economy, which includes the use of open market operations, reserve requirements, and a

minimum rediscount rate [2]. In the Nigerian experience, indirect instruments have been largely employed, having gained wider acceptance after the structural adjustment program (SAP) in 1986. Some authors even argued that the focus given to them in the literature is due to the fact that they are easy to quantify. Monetary policy in Nigeria significantly shapes household consumption expenditure through three primary transmission channels: money supply (liquidity), interest rates, and exchange rate volatility. Expansionary measures and rising liquidity tend to support spending power, while high borrowing costs and currency devaluation compress household welfare. An increased interest rate causes consumption and investment spending to fall, and thus aggregate demand falls; contrariwise, when it buys, it injects money into the system. The increased money supply decreases the interest rate, which causes consumption and investment spending to grow; hence, aggregate demand rises [3]. This method of trading in the market to control the money supply is called open market operations. Another monetary tool employed by the apex bank is the reserve requirement, which enables the central bank to set the minimum amount that a commercial bank must hold in liquid asset. This is the percentage of customer deposits and other liquid assets that commercial banks must keep within their own institutions or with the Central Bank of Nigeria. The reserve requirement is set by the Central Bank of Nigeria to ensure that deposit money banks (DMB) have enough assets to pay their depositors in the event of unusually high withdrawals [4]. The central bank uses this tool of monetary policy to influence the bank's ability to extend credit to its customers. Decreasing the reserve requirement tends to stimulate economic activity as banks have more assets to loan out to borrowers.

Many theories about consumption exist. Amongst them are Absolute income hypotheses, Permanent income hypothesis, Life cycle hypothesis and Permanent Income Hypothesis.

Permanent Income Hypothesis was developed by Friedman in which he proposed the permanent income hypothesis to explain consumer behaviour. In his theory, Friedman stresses the fact that people can smooth their expenditure through lending and borrowing. For this reason, he rejected the idea of using current income to be the primary determinant of consumption expenditure. Consequently, Friedman posited that what determines consumption is actually the long-term expected income, not the current income [5]. He stressed that daily consumption is not determined by daily income but rather the average daily income that is earned within a period of time. For this reason, income is divided into two categories, namely permanent and transitory. According to Friedman, permanent income is the amount of money a worker is expecting to get covering a period of time, which can change proportionately with the actual level of income, while transitory income is non-permanent and fluctuating income which a worker receives, where the amount he receives depends on how lucky he is and the amount of effort made by the worker. A transitory income can either be positive or negative based on whether actual income is above or below the permanent income [6].

1.2 Relative income hypothesis

The Relative Income Hypothesis was developed by Duesenberry in 1949. The theory posits that an individual's consumption and saving choices depend more on their relative position in society's income distribution than on their absolute income level [7]. This concept challenges the traditional economic views by showing that people tend to copy the spending habits of wealthier peers. Duesenberry observed people's neighbors, friends, and coworkers and lower-income groups and how they spend a larger percentage of their **income**. People naturally want to match or keep up with the consumption standards of their earnings to narrow perceived social gaps. This consumption behavior is the so-called Demonstration Effect. Again, he noted that present consumption is strongly tied to the peak level of income and consumption achieved in past periods. Families find it very difficult to reduce their lifestyle or

spending levels when their income temporarily falls and he referred to this as Ratchet Effect of consumption [8].

2. Materials and Methods

Friday and Ali examines the impacts of household consumption expenditures alongside its determinants such as money supply, inflation rate, interest rates, foreign direct investment, exchange rates, past and present on Nigeria's economic performance using descriptive statistics, Co-integration analysis, and Autoregressive Distributed Lag (ARDL) model/Error Correction Model (ECM) estimation techniques to analyze the data covering 1990 to 2022. The study found a stable long-run bond between household consumption expenditures, its determinants and economic growth in Nigeria. The empirical findings highlight the significance of household consumption expenditures, interest rates, money supply, inflation rate, foreign direct investment, and exchange rates in driving Nigeria's long-term and short-term economic performance. The results display that significant changes in the composition of household incomes and consumption expenditures pattern can transform the national output and industrial composition of the Nigeria economy. The study concludes by recommending different policies and strategies for better economic performance in Nigeria. Among the policies recommended are that policymakers in Nigeria should reexamine and update the current monetary and fiscal policy and use the combination of the updated monetary and fiscal policy to effectively to manage and spur economic growth in line with Nigeria economic, social and political dynamics to cope with current realities. Onwe, Metu, Obi, Uzoechina and Osayi study examines the impact of monetary policy on consumption expenditure in Nigeria using annual data from 1986 to 2021. The model for the study was built using Friedman's Permanent Income hypothesis. The study adopted the autoregressive redistributed lag model (ARDL), which shows that there is a long-run relationship between monetary policy and consumption expenditure. The variables of the model include interest rate, money supply, exchange rate, Treasury bill, reserve requirement, and inflation as independent variables, while consumption expenditure was captured using durable and non-durable consumer goods. The findings revealed that interest rate, money supply, exchange rate, Treasury bill, reserve requirements, and inflation had a significant impact on consumption expenditure for the period under review in Nigeria. Based on the findings, the study recommends that the monetary authorities use the policy instruments at their disposal to influence consumption expenditure especially the durable component in the desired direction given that it's a signal of pessimism or optimism of future economic conditions. Mgbemena and Osusuji study investigated the complex link that exists in Nigeria between household consumption expenditure and monetary policy from 1981 to 2019. The study used various statistical techniques and information from the Central Bank of Nigeria's yearly releases. Several statistical tests were used in the investigation, including co-integration tests, ordinary least squares, error correction models, and unit root tests to determine stationarity. The empirical results provided some fascinating new information. The broad money supply followed a normal distribution pattern throughout the time, with a very low probability value of 0.000073%. The statistically normal distribution trend was also observed in exchange rates, with a probability value of 0.044926%. Similarly, the focal dependent variable, household consumption spending, showed a significant normal distribution, as evidenced by the 0.041% probability value. Interest rates supported their place in the regression analysis by following a normal distribution at the 0.041% level of significance. Especially noteworthy was the study's finding that the nation's household consumption expenditure increased in tandem with the amount of broad money supply over time. On the other hand, household consumption expenditure and exchange rates showed a negative association, indicating that households may boost their spending by carefully managing the exchange rate. Furthermore, it was discovered that interest rates affect

household consumption expenditure, with a 4.24% decline in consumer expenditure over time resulting from an increase in interest rates. Based on these findings, the monetary authorities in Nigeria should consider raising the broad money supply to boost economic activity. In addition, the government should establish a stable exchange rate through the Central Bank of Nigeria to stimulate increased household consumption. Finally, the study emphasizes how crucial it is to monitor and stabilize interest rates to sustain household savings and consumption. Duarte and Pereira examined the effect of monetary policy on household consumption expenditures in Portugal using quarterly data from 2000 to 2019. They employed the vector autoregressive and the variables of the model include housing price index, harmonized index of consumer prices, gross domestic product, nondurable consumption and a stock price index. Their study found out that the wealthy hand-to-mouth households' consumption has the most significant reaction to monetary shocks because of extensive housing wealth and net interest rate exposure channels. In addition, due to its large size as a group in the Portuguese economy, they discovered that the wealthy hand-to-mouth households' consumption response explains why the aggregate consumption reacts more to monetary shocks in Portugal than in other European countries. Ihuga Metu and Ezenekwe examined the effects of expansionary monetary policy on household consumption expenditure in Nigeria using time series data spanning from 1981 to 2019 with the application vector error correction mechanism. The variables of the model include household consumption expenditure, money supply and inflation rate. Empirical results indicate that money supply has a positive and significant relationship with household consumption, whereas inflation has a negative relationship with household consumption. A further review of the impulse response function indicates that money supply positively contributes to household consumption in the short-run and long-run. The study used money supply (M2) to capture the effect of monetary policy on household consumption but this particular study integrated other monetary policy tools such as interest rate, open market operation, reserve requirement and exchange rate. Amali examined household consumption and unconventional monetary policy in Nigeria from Q1 of 1995 to Q4 of 2018 using the structural vector auto-regression (SVAR). The variables employed in the study were household consumption, central bank credit easing, public social and economic spending, real gross domestic product and real market lending rate. The findings revealed that the role of credit easing in the household consumption is not important in Nigeria, as a large part of the variation in household consumption can be explained by shocks to other economic activities. Ribon investigated the distinct effect of monetary policy on households' consumption in Israel, based on information from the Household Expenditure Surveys for 2003 to 2018. He used the Local Projection framework to analyze the effect of (unexpected) monetary policy changes on consumption – durable and other (excluding housing expenses). The study found that monetary policy affects only durables expenditure, while its effect on non-durable consumption is mostly insignificant. Furthermore, this effect is usually stronger for higher income households, consistent with the presence of the wealth effect found in several studies. Consequently, contractionary monetary policy, which reduces higher income households' expenditure more than that of lower income households, will tend to reduce dispersion in consumption, while accommodative policy will increase dispersion.

3. Results

3.1 Model specification

This study investigated monetary policy on Household consumption expenditure in Nigeria from 1981-2019 by adopting the model of Mgbemena and Osusiji. The functional model for the study is presented as;

$$HCE = f(BMS_2, EXCR, INT, MPR).....(1)$$

The mathematical model is

$$HCE = f(\alpha_0 + \alpha_0 BMS_2 + \alpha_0 EXCHR + \alpha_0 INT + \alpha_0 MPR + \mu_t) \dots \dots \dots (2)$$

The econometric form is

$$HCE = f(\alpha_0 + \alpha_0 BMS_{2t-1} + \alpha_0 EXCHR_{t-1} + \alpha_0 INT_{t-1} + \alpha_0 MPR_{t-1} + \mu_{t-1}) \dots \dots \dots (3)$$

Where

HCE = household consumption expenditure, MPR = Monetary policy rate at time 't', BMS2 = Money supply proxied by the broad money supply (M2) at time 't', EXCHR = exchange rate at time 't' and INT = Interest rate proxied by bank lending rate at time 't'.

The present study investigated monetary policy and household consumption expenditure in Nigeria from 1980 to 2024. The functional model for the present study is presented as;

$$HCD = f(CRR, LQR, MPR, MRR, OMO, TRB) \dots \dots \dots (4)$$

The mathematical model is

$$HCD = f(\beta_0 + \beta_1 CRR + \beta_2 LQR + \beta_3 MPR + \beta_4 MRR + \beta_5 OMO + \beta_6 TRB + \mu_t) \dots \dots \dots (5)$$

The econometric model is given as

$$HCD = f(\beta_0 + \beta_1 CRR_{t-1} + \beta_2 LQR_{t-1} + \beta_3 MPR_{t-1} + \beta_4 MRR_{t-1} + \beta_5 OMO_{t-1} + \beta_6 TRB_{t-1} + \mu_t) \dots \dots \dots (5)$$

Where

HCD = Household Consumption expenditure at time 't'

CRR = Credit reserve ratio at time 't'

LQR = Liquidity ratio at time 't'

MPR = Monetary policy rate at time 't'

MRR = Minimum rediscount ratio at time 't'

OMO = Open market operation at time 't'

TRB = Treasury Bill at time 't'

μ = white noise,

$\beta_t - \beta_6$. = Error term; β_0 = Intercept are parameter estimates

Table 1. Descriptive test

	HCD	CRR	LQR	MPR	MRR	OMO	TRB
Mean	64.32681	18.98106	60.10000	18.18723	80.28085	13.46149	41.65574
Median	66.30000	13.21000	67.20000	18.32000	90.90000	3.700000	35.52000
Maximum	98.90000	72.84000	99.00000	29.80000	99.70000	79.70000	96.29000
Minimum	5.900000	5.380000	3.700000	7.500000	7.200000	0.400000	12.28000
Std. Dev.	22.54884	15.81388	25.08983	4.707894	23.58158	17.97015	23.42591
Skewness	-0.287126	1.889620	-0.808659	-0.333622	-1.670809	1.809594	0.621455
Kurtosis	2.518957	5.674180	2.558044	3.374437	4.949803	5.985432	2.468098
Jarque-Bera	1.098955	41.97472	5.504956	1.146445	29.31262	43.10550	3.579333
Probability	0.577251	0.000000	0.063770	0.563706	0.000000	0.000000	0.167016
Sum	3023.360	8921100	2824.700	854.8000	3773.200	632.6900	1957.820
Sum Sq. Dev.	23388.72	11503.62	28956.98	1019.556	25580.19	14854.61	25243.56
Observations	47	47	47	47	47	47	47

The mean values of consumption expenditure, credit reserve ratio, liquidity rate, monetary policy rate, minimum rediscount ratio and Treasury Bills are 64.32681m, 18.98106m, 60.10000m, 18.18723m, 80.28085m, 13.46149m and 41.65574m respectively [9]. The skewness of the variables are -0.287126, 1.889620, -0.808659, -0.333622, -1.670809, 1.809594 and 0.621455 which are all negative for consumption expenditure, credit reserve ratio, liquidity rate, monetary policy rate, minimum rediscount ratio and Treasury Bills respectively. The value of the Jarque-Bera test of the variables are 1.098955, 41.97472, 5.504956, 1.146445, 29.31262, 43.10550 and 3.579333 suggesting that credit reserve ratio, liquidity rate, monetary policy rate, minimum rediscount ratio and Treasury Bills are normally distributed respectively [10].

Table 2. Unit root

Variables	Levels		First Difference		Order of Integration	P-value
	ADF Statistics	5% Critical Value	ADF Statistics	5% Critical Value		
HCD	-4.326849	-3.526609	-5.346218	-3.510740	1(0)	0.0004
CRR	-4.103665	-3.513075	-7.069242	-3.515523	1(0)	0.0000
LQR	-4.138867	-3.653675	-6.106690	-3.443563	1(0)	0.0054
MPR	-2.996537	-3.520787	-6.841052	-3.515523	1(1)	0.0000
MRR	-2.449048	-3.515523	-9.932698	-3.515523	1(1)	0.0000
OMO	-4.306430	-3.510740	-7.155740	-3.515523	1(1)	0.0000
TRB	-1.609413	-3.513075	-10.70231	-3.513075	1(1)	0.0000

Source: Author Computation from E-Views 2024* Level of significance at 5%

This study employs the Augmented Dickey-Fuller (ADF) unit root test to check the order of integration of the variables and the results are presented above in table 2. The ADF test result revealed that the variables are integrated of order 1(0) and 1(1) series meaning that it is a mixed order of integration. The ADF result revealed that some variables are stationary at levels 1(0) and some at first difference 1(1). This condition makes the ARDL approach to co-integration possible for investigating the long-run and short run relationship among these variables [11].

Table 3. ARDL to Co-integration Test

Hypothesized		Trace	0.05	Prob.**
No. of CE(s)	Eigenvalue	Statistic	Critical Value	Critical Value
None *	0.695714	155.0358	125.6154	0.0002
At most 1 *	0.566331	101.4954	95.75366	0.0190
At most 2	0.468732	63.89902	69.81889	0.1355
At most 3	0.341278	35.43700	47.85613	0.4252
At most 4	0.168651	16.65158	29.79707	0.6656
At most 5	0.141715	8.339835	15.49471	0.4298
At most 6	0.031988	1.462979	3.841465	0.2265

Co-integration test: Max-Eigen

Hypothesized		Max-Eigen	0.05	Prob.**
No. of CE(s)	Eigenvalue	Statistic	Critical Value	Critical Value
None *	0.695714	53.54045	46.23142	0.0070
At most 1	0.566331	37.59635	40.07757	0.0927
At most 2	0.468732	28.46202	33.87687	0.1930
At most 3	0.341278	18.78542	27.58434	0.4313
At most 4	0.168651	8.311749	21.13162	0.8836
At most 5	0.141715	6.876857	14.26460	0.5038
At most 6	0.031988	1.462979	3.841465	0.2265

Co-integration analysis can help to disclose long-run links given the fact that there is interaction between monetary policy and household consumption expenditure in Nigeria. Arising from the Co-integration test using Trace Statistic and Max-Eigen test, there is an indication of a long run links amongst the variables used [12]. The rule states that even if there is the existence of one co-integrating variable, there is long run equilibrium in the model. The Trace statistic indicates two (2) co-integrating variables and Max-Eigen value shows one (1) co-integrating variable, hence co-integration exist amongst the variables used. This enables the use of ARDL justification for a short run equilibrium dynamics within the periods under review, 1980-2024.

Table 4. ARDL short-run Result (HCD)

Variable	Coefficient	Std. Error	t-Statistics	Prob
CXD(-1)	-0.193840	0.233527	-2.830054	0.0415
CRR	-0.186681	0.252199	-3.740214	0.0423
CRR(-1)	-0.114478	0.281337	-2.406905	0.0207
LQR	-0.164440	0.215379	2.763492	0.0588
LQR(-1)	-0.085513	0.257491	-2.332100	0.0451
MPR	-0.377981	1.163643	-3.184196	0.0575
MPR(-1)	-0.953734	1.058635	2.545521	0.0379
MRR	-0.008305	0.155885	3.053277	0.0583
OMO	-0.175747	0.246522	-3.712904	0.0485
OMO(-1)	-0.057949	0.242775	-2.238694	0.0151
TRB(-1)	-0.188138	0.297027	3.633403	0.0575
TRB(-2)	-0.684859	0.313520	-2.184418	0.0478
R ² =	DW1. = 2.586137	F-stat = 4.109892		
0.901654				

Source: Author Computation from E-Views 2024. Level of significance at 5%

4. Discussion

The R² explains about 0.901654 or 90% of the total variation in the model. In nutshell, the model is remarkable since the F-statistic is significant at the 5% level of significance given its value of 4.109892. Without serial correlation, the model would not work, according to the Durbin-Watson statistics of 2.586137.

4.1 Credit Reserved Ratio and Consumption expenditure in Nigeria.

From the ARDL result, the coefficient ts of credit reserve ratio in the current period is -0.186681. A negative relationship exists between credit reserve ratio and Household consumption expenditure in Nigeria [13]. An increase in credit reserve ratio by one percent on the average, will lead to a decrease in the household consumption expenditure by about -0.186681 or 0.18 Percent point. There is equally a negative links in the lagged period (1) value given a coefficients value of -0.114478 in Nigeria. An increase in credit reserve ratio by one percent on the average, will lead to a decrease in the household consumption expenditure by about -0.114478 or 11 Percent. The negative affiliation between credit reserve ratio and Household consumption expenditure in the current period do conform to economic theory and also, the lagged (1) period do conform to economic theory [14]. It is expected that increases in credit reserve ratio will decrease Household consumption expenditure in Nigeria and same for in lagged (1) value. Both periods are statistically significant 5 % in Nigeria [15].

4.2 Liquidity ratio and consumption expenditure in Nigeria.

Again, the ARDL result shows that the coefficients of Liquidity ratio (LQR) in the current period is -0.186681. A negative relationship exists between Liquidity ratio and

Household consumption expenditure in Nigeria. An increase in Liquidity ratio by one percent on the average, will lead to an increase in the household consumption expenditure by about 0.164440 or 0.16 Percent point. There is a negative links in the lagged period (1) value given a coefficients value of -0.085513 in Nigeria. An increase in Liquidity ratio by one percent on the average, will lead to a decrease in the household consumption expenditure by about -0.085513 or 08 Percent. The negative affiliation between Liquidity ratio and Household consumption expenditure in the lagged period do conform to economic theory [16]. It is expected that increases in Liquidity ratio will decrease Household consumption expenditure in Nigeria. Both periods are statistically significant 5% in Nigeria.

4.3 Monetary policy rate and Household consumption expenditure in Nigeria.

Again, the ARDL result coefficients of monetary policy rate (MPR) in the current period is 0.008305. A negative relationship exists between MPR and Household consumption expenditure in Nigeria [17]. An increase monetary policy rate by one percent on the average, will lead to a decrease in the household consumption expenditure by about 0.008305 or 8 Percent point. This conform to economic growth theory. There is equally a negative links in the lagged period (1) value given a coefficients value of -0.953734 in Nigeria [18]. An increase in monetary policy rate by one percent on the average, will lead to a decrease in the household consumption expenditure by about -0.953734 or 95 Percent. It is expected that increases in monetary policy rate will decrease Household consumption expenditure in Nigeria and both are statistically significant at 5 % % level of significance in Nigeria [19].

4.4 Minimum rediscount ratio and Household consumption expenditure in Nigeria

Again, the ARDL result coefficients of monetary policy rate (MPR) in the current period is -0.008305. A negative relationship exists between minimum rediscount ratio and Household consumption expenditure in Nigeria. An increase in minimum rediscount ratio by one percent on the average, will lead to a decrease in the household consumption expenditure by about -0.008305 or 8 Percent point. This conform to economic growth theory. It is expected that increases in minimum rediscount ratio will decrease Household consumption in Nigeria. It is statistically significant at 5% of significance in Nigeria.

4.5 Open market operation and Household consumption expenditure in Nigeria

From the ARDL result, the coefficients of open market operation in current period is -0.175747. A negative relationship exists between open market operation and Household consumption expenditure in Nigeria. An increase in open market operation by one percent on the average, will lead to a decrease in the household consumption expenditure by about -0.175747 Percent point. There is equally a negative links in the lagged period (1) value given a coefficients value of -0.057949 in Nigeria. An increase in open market operation by one percent on the average, will lead to a decrease in the household consumption expenditure by about -0.057949 Percent. The negative affiliation between open market operation and Household consumption expenditure in the current period do conform to economic theory and also, the lagged (1) period do conform to economic theory. It is expected that increases in open market operation will decrease household consumption in Nigeria. Both periods have statistically significant links at 5% in Nigeria.

4.6 Treasury bill and Household consumption expenditure in Nigeria

From the ARDL result, the coefficients of Treasury bill (TRB) in lagged (1) period is -0.188138. A negative relationship between Treasury bill and Household consumption expenditure in the lagged (1) period exists. An increase in Treasury bill by one percent on the average, will lead to a decrease in the household consumption expenditure by about -0.188138 Percent point. There is equally a negative links in the lagged period (2) value

with a coefficients value of -0.684859 in Nigeria. An increase in Treasury bill by one percent on the average, will lead to a decrease in the household consumption expenditure by about -0.684859 Percent. The negative affiliation between Treasury bill and Household consumption expenditure in lagged (1) do conform to economic theory and also in lagged (2) period. It is expected that increases in Treasury bill in lagged (1) value will decrease Household consumption in Nigeria and increases in Treasury bill in lagged (2) value will also decrease household consumption expenditure in Nigeria. They are both statistically significant at 5 % level of significance in Nigeria.

5. Conclusion

The study examined monetary policy and household consumption expenditure in Nigeria using ARDL method to test some explanatory variables and the study concludes that there is a significant impact of monetary policy on household consumption expenditure in Nigeria especially since all variables became statistically significant at 5 % level of significance.

Based on the findings of the study, the following the following recommendations are proposed

The negative impact of credit reserve ratio (CRR) on household consumption expenditure implies that credit reserve ratio in Nigeria is one of the major determinants of consumption expenditure. Since an increase in credit reserve ratio discourages consumer spending, it thus displays that monetary authorities should target friendly credit reserve ratio as such would boost the consumption expenditure of individuals in Nigeria especially the durable component of consumption expenditure.

Given the negative and significant impact of monetary policy rate (MPR) on consumption expenditure, the study recommends that the monetary authority should formulate and implement monetary policies that would ensure optimal monetary policy rate which will in turn reduce interest rates without creating excess liquidity.

Similarly, there's a significant and negative impact of open market operation on consumption expenditure and thus the study recommends strategy which will reduce the high level of open market operation which puts so much pressure on the economy. Again, Treasury bill is negative and had significant impact of Treasury bill on consumption expenditure. Therefore, the study recommends that there is a need for the monetary policy authorities to take into account the policy simulations that will stabilize borrowing specifically for durable consumer goods in Nigeria. Also, given the negative impact of minimum rediscount ratio on consumption expenditure, the study recommends monetary authorities to take monetary measures that will reduce the minimum rediscount ratio in the country in order to encourage and boost consumption spending in Nigeria.

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