



DE-DOLLARIZATION BEGINS

How Nigeria Should Respond to a Changing Global Order

Introduction

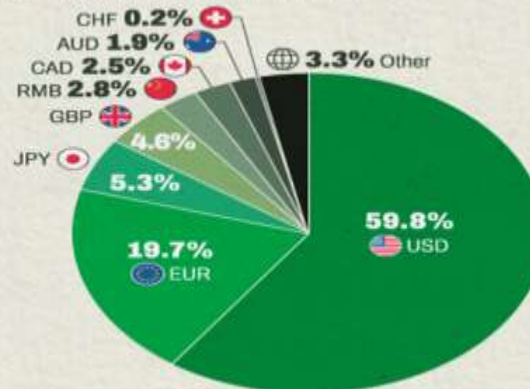
In a historic and potentially transformative move for the global financial system, eleven countries—all members of the Commonwealth of Independent States (CIS)—have jointly announced plans to phase out the use of the U.S. dollar in their international transactions starting in 2025.

This bloc includes Armenia, Azerbaijan, Belarus, Kazakhstan, and Kyrgyzstan, along with Moldova, Russia, Tajikistan, Turkmenistan, Uzbekistan, and Ukraine. Instead of relying on the dollar, these nations intend to conduct trade using their own national currencies, a decision aimed at fostering greater economic sovereignty and reducing their vulnerability to U.S. monetary policy and geopolitical leverage.

Although the U.S. dollar continues to dominate global finance—still used in around 80% of all international trade transactions—its unchallenged supremacy is beginning to show signs of erosion. Economists and financial leaders have started to acknowledge this shift. Joyce Chang, Chair of Global Research at JP Morgan, recently commented that while the dollar is unlikely to be dethroned in the immediate future, its grip on the world economy is no longer as absolute as it once was.

Several key factors are driving this move away from the dollar. Geopolitical tensions, particularly those involving sanctions and trade restrictions, have pushed many countries to explore

WORLD FOREIGN EXCHANGE RESERVES



Source: Currency Composition of Official Foreign Exchange Reserve - IMF Data, Reuters, Vodmosti

alternatives that insulate their economies from external pressures. Technological innovations, such as the rise of digital currencies and blockchain-based payment systems, are also enabling countries to bypass traditional dollar-dominated frameworks.

Moreover, there is a broader international trend toward “de-dollarization,” where nations seek to diversify their foreign exchange reserves and conduct trade in alternative currencies to mitigate the risks associated with heavy reliance on a single, foreign-issued currency.

While the long-term impact of this shift remains uncertain, the decision by the CIS countries reflects a growing desire among emerging economies to reshape the global financial landscape into one that is more multipolar and less dependent on any single nation’s monetary policy.

Implications For Nigeria

For Nigeria, these emerging global shifts away from the U.S. dollar carry significant implications. As one of Africa's largest economies and a major oil exporter that heavily depends on dollar-denominated transactions, Nigeria stands at a potential inflection point.

The move by several countries to abandon the dollar in favor of local currencies presents both challenges and opportunities that could reshape the country's economic strategy in the years ahead.

Foreign Exchange Stability: A decline in global demand for the U.S. dollar may introduce heightened volatility in foreign exchange markets, which could complicate Nigeria's already delicate exchange rate management.

The naira, which has faced chronic depreciation and liquidity pressures, might become even more vulnerable in a less dollar-centric world where global capital flows shift unpredictably. This could force Nigerian monetary authorities to reassess current exchange rate frameworks and adopt more dynamic FX risk mitigation strategies.

Trade Diversification: In response to these global monetary shifts, Nigeria may need to accelerate efforts to diversify its trade relationships beyond traditional dollar-based partners. This includes expanding bilateral trade agreements that utilize alternative currencies, such as the

Chinese yuan, or participating in regional payment systems like the Pan-African Payment and Settlement System (PAPSS). Such diversification could not only reduce dependency on the dollar but also enhance resilience to external shocks and sanctions.

Reserves Management: The Central Bank of Nigeria (CBN) may be compelled to rethink its reserves management approach. With the dollar potentially losing some of its dominance, it would be prudent for the CBN to diversify its foreign reserves portfolio to include a broader mix of currencies and potentially even digital assets. Incorporating currencies from major trading partners, such as the yuan, euro, or even regional African currencies, could help buffer Nigeria against global currency fluctuations.

Investment Flows: A shift in the global monetary order could alter investor behavior, particularly in emerging markets like Nigeria. If the U.S. dollar's long-standing safe-haven status weakens, international investors might reevaluate risk-reward calculations across different markets. For Nigeria, this could mean both a challenge—due to greater scrutiny and risk aversion—and an opportunity to attract new types of investment, especially from countries and institutions aligned with non-dollar systems.

Overall, while a move away from the dollar presents risks—especially for an import-dependent, oil-exporting economy like Nigeria—it also opens a window for long-term strategic reorientation. By proactively adapting to these global changes, Nigeria could position itself more securely in a rapidly evolving international financial landscape.

Historical Context: Nigeria's FX and Trade Strategy

Historically, Nigeria's economic model has been heavily dependent on oil exports, with over 90% of its foreign exchange earnings derived from crude oil—almost entirely priced and traded in U.S. dollars.

This dollar dependence has exposed Nigeria to the volatility of global oil markets and the whims of U.S. monetary policy. For decades, Nigeria maintained a tightly controlled foreign exchange regime, with multiple exchange rates and significant central bank intervention aimed at defending the naira.

This approach led to chronic imbalances, forex scarcity, and speculative pressure. In 2016 and again in 2021, the Central Bank of Nigeria (CBN) undertook reforms to unify exchange rates and shift toward a more market-reflective system. But progress was slow owing to political sensitivity.

In May 2023, Nigeria's current administration took a bold and long-anticipated step by unifying the country's multiple exchange rates into a single, market-determined rate.

This move marked a significant policy shift away from years of central bank-driven rate controls and multiple exchange windows, which had long distorted Nigeria's foreign exchange landscape.

The unification was aimed at improving transparency, attracting foreign investment, and addressing

longstanding criticisms from international financial institutions and investors about Nigeria's opaque currency management. It was seen as a key structural reform that signaled a willingness to allow market forces greater influence over the naira's value.

However, despite this initial unification, challenges remain. The naira has continued to face downward pressure, FX liquidity remains constrained, and the Central Bank has at times intervened heavily—raising questions about the depth and durability of the reforms.

On the trade front, Nigeria has historically focused on a narrow set of export partners, largely outside of Africa. While the country joined the African Continental Free Trade Area (AfCFTA), intra-African trade still remains a small portion of Nigeria's total trade volume.

As a result, Nigeria has not fully capitalized on regional trade opportunities or alternative currency trade frameworks.

Policy Recommendations

To navigate the implications of a shifting global currency order, Nigeria will need to implement targeted and sustained policy reforms across several key areas:

FX Policy Reform and Exchange Rate Flexibility

Following the May 2023 unification of Nigeria’s multiple exchange rates into a single, market-reflective rate, the next step is to solidify this reform into a fully transparent, rules-based, and flexible exchange rate regime.

This will reduce artificial distortions in the FX market, attract long-term investment, and allow the naira to adjust more organically to shifts in global dollar liquidity. To achieve this, the government should ensure that interventions by the Central Bank are predictable and data-driven, while also boosting FX supply through measures such as liberalizing the repatriation of oil revenues and supporting fintech platforms that facilitate cross-border inflows.

Coordinated monetary and fiscal policy, along with the elimination of residual parallel market gaps, will further enhance confidence in the system.

Reserve	Diversification	Strategy
Nigeria must broaden the currency composition of its foreign reserves to reflect a more multipolar currency environment. Currently overexposed to the U.S. dollar and euro, the country should begin integrating alternative currencies such as the Chinese yuan and regional African currencies, while also considering limited allocations to gold and other tangible		

assets as hedges against volatility. This diversification can be supported through the development of bilateral currency swap agreements with key trade partners like China, and by reassessing the Central Bank’s reserve portfolio strategy to improve long-term resilience to global financial shocks.

Bilateral and Regional Trade Agreements in Non-Dollar Currencies

As global trade shifts away from dollar dominance, Nigeria should pursue trade agreements that allow for settlement in local or regional currencies. This will help insulate the economy from FX volatility and facilitate deeper integration into emerging trade networks.

Engaging more fully with platforms like the Pan-African Payment and Settlement System (PAPSS), and negotiating bilateral settlement arrangements with major non-Western partners such as India, South Africa, and China, can significantly reduce transaction costs and improve trade fluidity.

Domestic	Economic	Diversification
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To reduce its vulnerability to dollar fluctuations and external shocks, Nigeria must accelerate the diversification of its economy beyond crude oil exports. A more diverse export base—particularly in sectors such as agro-processing, technology, solid minerals, and light manufacturing—will not only create jobs but also allow for more balanced trade relationships that can support non-dollar currency settlements.

This will require targeted support, including tax incentives, credit access for SMEs, improved infrastructure, and industrial policy frameworks that prioritize value addition over raw commodity exports.

Investor Confidence and Policy Clarity

In a world where the dollar's safe-haven appeal may decline, investor decisions will rely more heavily on country-specific fundamentals. Nigeria must improve policy transparency and predictability to attract and retain foreign capital.

This means avoiding sudden capital controls or policy reversals, maintaining consistent macroeconomic communication, and establishing clear rules around debt sustainability and monetary policy. Strengthening institutions and reinforcing rule-of-law signals will be vital to positioning Nigeria as a credible and stable investment destination in a more uncertain global financial landscape.



While the immediate impact may be gradual, the symbolic weight of eleven countries collectively reducing reliance on the dollar signals a changing global order. For Nigeria, proactive strategic adjustments — particularly in trade, monetary policy, and reserve management — will be key to navigating this evolving landscape.

At DFC Asset Management, we are closely monitoring these global shifts to help our clients stay ahead in an increasingly multipolar financial world.

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