

Redenomination of Naira: A Critical Analysis of Its Problems and Prospects

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Abstract

The study examines the problems and prospects of redenominating the naira currency. The economic consequences of the devaluation of Naira currency in the eighties are still being felt in the low value of naira. To ascertain Nigerians view on redenominating the naira, a total number of 153 respondents were studied and the data extracted from them was analyzed with simple percentage method. The study found that redenomination of naira will lead to the economic recovery of Nigeria and that redenomination can increase the prices of Nigeria export. The study recommends that for the redenomination exercise to be successful, it should be complemented with strict and disciplined fiscal policy so as to strengthen the economy and sustain the value of the redenominated currency and that the redenomination exercise should be timed in such a way that it will not create uncertainty and instability that will make investors to be risk averse.

Key words: Redenomination, Prospects, Currency, Decimalization, and evaluation.

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INTRODUCTION:

When a nation is ranked among the poorest in the world, the government of such nation has an obligation to revive their economy so as to bring it up to prosperity state. One of the measures usually taken by such government is to devalue their currency. Devaluation happen to be one of the conditions usually given by the developed nations on the aids given to the poor nation. In order to comply with the conditions of structural adjustment programme (SAP), Nigeria currency, the Naira witnessed several devaluations. These devaluations led to a tremendous fall on the value of Naira. This devaluation instead of lifting these nations out of poverty tends to plunge them deeper into poverty. However, for the poor African nations to revive their economies from adverse effect of devaluation of their currency there is urgent need for them to redenominate their currency.

In an attempt to restore the value of the Naira and maintain its credibility and confidence internationally, on the 14th of August 2007, the former Governor of the Central Bank of Nigeria (CBN) Professor Charles Chukwuma Soludo announced a monetary policy measure tagged, "Agenda for the Naira" with Redenomination as the thrust of the policy, Soludo, (2007). The heat generated by the proposed Redenomination of Naira currency made the Federal Government of President Umaru Musa Yar'Adua to suspend the proposed Redenomination claiming that the Central Bank Governor did not get his approval before announcing the proposed redenomination exercise. This is despite the fact that our neighboring country, Ghana embarked on the same redenomination of their currency after experiencing different high levels of inflation and immediately after redenomination of Cedi, the value of Cedi picked up and since then has remained stable and their economy revived.

Redenomination is a process of replacing the currency in circulation with a new designed lower denominated currency that has greater value. According to Soludo (2007), "Redenomination of currency is a process where a new Unit of smaller denominated currency replaces the old higher denominations. It is achieved by removing zeros from a currency or moving some decimal points to the left, with the aim of correcting perceived misalignment in the currency and pricing structure thereby enhancing the credibility of

the local currency. Redenomination of currency reduces the risk of carrying large denominations with very small value.

Objectives of the Study

The main objective this study is to critically analyze the prospects and problems of redenominating the naira currency.

The specific objective:

1. To determine the prospects of redenomination of currency as a tool for speedy economic recovery of our economy.
2. To examine the problems that might arise as a result of redenomination of naira in our economy.

Research Questions

1. Can redenomination of Naira facilitate speedy economic recovery in Nigeria?
2. Can redenomination of currency increase the prices of our exports?

Review of Related Literature

Redenomination is the process of changing the currency value on a financial security. It is the process where a new unit of money replaces the old unit with a certain ratio. It is achieved by removing zeros from a currency or moving some decimal points to the left, with the aim of correcting perceived misalignment in the currency and pricing structure, and enhancing the credibility of the local currency (Soludo, 2007). Redenomination of currency is when a country issues new currency design, carrying (usually lower) nominal values than the respective existing currency structure.

When a nation redenominates its currency, the Central Bank of that country will print and put into circulation brand new notes and coins and call it for example, the new Naira. Redenomination is a measure used by developing countries recovering from hyperinflation to check inflationary pressure, as in the case of Ghana. The word 'redenomination' surfaced in Nigeria in August 14 2007 when the former Governor of CBN Professor Charles Soludo released a financial policy tagged, "The Strategic Agenda for Naira" It was a proposal by the CBN to redenominate the naira currency by a factor of 100 effective from August 1, 2008 by shifting two decimal points to the left thereby instantly and effectively creating hectonaira unit of account

(Olajide, 2008). Olajide, (2008) stressed that redenomination is neither decimalization nor revaluation rather it is another fixed exchange regime which has to do with changing the digits of the currency.

The prospects of redenomination are enormous as redenominating a currency leads to a stronger value of the currency which in turn leads to a fall in price because raw materials and machinery becomes cheaper. Ofeimun, (2007) described redenomination as a kind of 'Tsunami' and revolution on naira. He urged Nigerians to see redenomination of currency as a definite end to structural adjustment programme (SAP). He blamed the rejection of redenomination of naira by the federal government on the advocates of SAP who so much believe in devaluation of currency.

Redenomination thrives in a country that has achieved a measure of price stability and has restored confidence in their currency. The proposed redenomination would have placed Nigeria on international financial centre and the hub of the Africa's financial system. According to (Nwosu, 2007), redenomination of naira to lower notes will restore the real value of our money provided other macro-economic variables are tackled to give the desired effect. He also believes that it will boost investment in capital market.

Redenomination of currency has the prospects of reducing the risks associated with carrying large physical cash because it eliminates large denominations with very little value. It also reduces transaction cost and general inconveniences (Amoako-Agyeman, 2014). Also redenomination reduces the quantity of money in circulation to a manageable size which will in turn reduce the cost of printing, distribution and processing of currency, it reduces increasing difficulties in maintaining bookkeeping and statistical records. For example, an Accountant or Banker will debit N10,000 easier and faster than debiting N1,000,000. Redenomination reduces inflationary pressure as can be seen in Ghana. Headline inflation in Ghana was reduced from 40 percent to 13.2, immediately after redenomination and its targeted to fall within single digit. (http://www.mofep.gov.gh/report210468_1.htm) it ensure compatibility of data processing software and saves time and money. Businesses and banks that handle huge sums of money will make gain on the time they spend counting money as redenomination reduces the volume of money in circulation.

Redenomination can create problem of Speculative Attack. During redenomination, speculators are the worst hit hence their speculative investments are affected as soon as the value of money changes. Redenomination of currency leads to capital flight. Expatriates, politicians and most rich men for fear of losing some values of their money, move their money to banks abroad once they hear about plans to redenominate currency. It leads to sharp drop from remittances from abroad. This is because redenomination increases the exchange rate of the redenominated currency. Potential investors become risk averse due to uncertainties of what might come up in the economy. They adopt a “lets watch and see attitude”. Finally, redenomination increases the cost of export which results in the slowdown of economic activities.

How Redenomination Works

Redenomination is when a country issues new currency design, carrying lower nominal values than the respective existing currency structure. Brand new designed notes and coins will be issued and called for example, new naira (NN) in denominations of NN1, NN2, NN5, and NN10 with a new Kobo (NK) coins of 5NK, 10NK, 20NK, 50NK, to replace the current N100, N200, N500, N1000, N5, N10, N20, and N50 notes respectively. In the case of Nigeria’s proposed redenomination exercise, a new N20 will be the highest denomination and will be equivalent to the highest denomination and will be equivalent to the current N2,000 in existing currency for a period of six to twelve months period of grace; the two currencies will be acceptable and exist side by side to ensure a smooth transition, Lesleba (2007).

When a nation decides to redenominate its currency, the Central Bank of that will announce the nation’s intention to redenominate her currency; they set time for redenomination to take effect and the length of grace period.

- The new currency notes and coins will be different from the existing ones, in design, appearance, security features, denomination and so on.
- All assets and liabilities including bank deposits, prices, fees, rents, wages, salary and contracts will be redenominated by dropping of zeros or moving the approved decimal points to the left.

- During the transition period, prices will be quoted in both the new and the old currency and everyone will choose whether to pay in the new or old naira. The grace period is allowed so that everybody will get familiar with the conversion and during this period, he is free to accept either the old or the new naira. For example, if a nation is removing two zeros, that is moving two decimal points to the left as was the case in the CBN proposed redenomination of naira in 2007. When this is done, the current N2000 will become N20. If a bag of garri sells for N2000 old naira, the price in the new naira will automatically be N20.

Table 1: Price Equivalent in the New and Old Naira

Commodity/Services	Price in Old Naira	Price in New Naira
Price of 1 bag of Garri	N2000	N20
Price of Bus Drop	N20	20kobo
House Rent per Flats in some part of Nigeria	N5000 per month	N50 per month
Stock price of a company	N20 or N80	20kobo or 80kobo
Airline Ticket for domestic flight	N12,500	N125
Exchange rate N to \$	Assume it is say: N125 or N130 or N100 to US\$1	N1.25 = US\$1 Or N1.30 = US\$1 Or N1 = US\$1

Source: Central Bank of Nigeria

From the table above, it could be seen that the existing N2000 will be replaced by only new N20. In the same vein, instead of carrying N200,000 of the old currency, you can now carry only N2000 of the new redenominated currency. By so doing the volume of money in circulation will be drastically reduced. Instead of carrying large sums of the old currency in “Ghana must go bag” and attracting criminals, you can just pocket few redenominated currencies that have more value. By the time the old currency is completely eliminated in circulation, you find out that a large volume of money have been put out of circulation and thus reducing the volume of cash in circulation (Osakwe, 2009), (Samuel, Ben, Ike and Abner, 2018). According to Johan and Ronald, (2012) in their study on “the impact of implementing redenomination in Indonesia from Indonesia citizen’s perspective” They used redenomination as independent variable and 8 indicators as dependent variable. Data was collected from 100 people

and analyzed by using structural equation modelling. The study found that the greatest impact of redenomination was restoring the credibility of Indonesia Rupia and that redenomination favours Indonesia citizens. The study recommended that redenomination is efficient in controlling inflation in Indonesia.

This study was anchored on consumer's financial management and re-evaluation theory. It states that currency redenomination has an effect on the consumer's financial strength which compels him to re-strategize on financial management plan without redenomination process affecting the market values of traded commodities but rather affecting the currency configuration.

Methodology

The study adopts the survey research design. This allows the researcher to obtain data from the Chartered Institute of Bankers of Nigeria (CIBN) Anambra state chapter, Institutes of Chartered Accountants of Nigeria (ICAN), Anambra state chapter and Registered Stock Brokers through primary source by the use of questionnaire. Structured questions was used which allow respondents to select their responses.

The sampling technique adopted in this study was a simple random sampling. Out of a population of 240, 200 were randomly selected as sample for the study in the following order:

Bankers 80
Accountants 65
Stock Brokers 55
Total: 200

The study used simple percentage method to analyze the data collected from the questionnaire.

Can redenomination of naira facilitate speedy economic recovery of Nigerian economy?

	Frequency	Percent	Valid Percent	Cumulative Percent
Agreed	110	71.9	71.9	71.9
Disagreed	36	23.5	23.5	95.4
Uncertain	7	4.6	4.6	100
Total	153	100	100	

Table 1: Redenomination facilitating economic recovery of Nigeria

More than seventy Percent (71.9%) of the respondents believe that redenomination will lead to the economic recovery of Nigeria while 23.5% believe otherwise. The analyses of data revealed that out of 153 respondents, 110 or 71.9% believed that redenomination of naira can facilitate speedy economic recovery of Nigeria. According to Amoako-Agyeman (2014), the Ghanaian economy after redenomination of Cedi witnessed a stuttering visible improvement. This is more notable in inflation; the annual rate of inflation dropped from 10.3% in February 2007 to 10.2 percent in March 2007.

On whether redenomination can increase the prices of Nigerian export

	Frequency	Percent	Valid Percent	Cumulative Percent
Agreed	103	67.3	67.3	67.3
Disagreed	30	19.6	19.6	86.9
Uncertain	20	13.1	13.1	100
Total	153	100	100	

Table 2: Can redenomination increase the prices of our export?

The table above shows that 67.3% of the respondents were affirmative that redenomination can increase the prices of Nigeria export. A total number of 103 respondents believe that the redenomination of naira will increase the prices of our export while 30 disagreed. 20 of them were uncertain that prices of Nigerian export will increase if our currency is redenominated.

CONCLUSION

The study concludes that as Nigeria aspire for a higher financial status of becoming a reference currency in West African Sub-region, Nigeria need a currency that is relevance locally and internationally, there is need for Nigeria to consider the numerous prospects of redenomination which outweighs its problem.

RECOMMENDATIONS

- For the redenomination exercise to be successful, it should be complemented with strict and disciplined fiscal policy and broader objectives of economic development such as export promotion, job creation and favourable balance of payment so

as to strengthen the economy and sustain the value of the redenominated currency.

- Redenomination exercise should be timed in such a way that it will not create uncertainty and instability that will make investors to be risk averse.

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