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Redenomination of Naira: A Strategy for Inflationary Reduction

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Abstract

The paper examined redenomination of naira currency as a strategy for reducing inflation rate in Nigeria. The pressure of currency devaluation mounted on the developing nation's currency by the developed nations as a condition for loans and grants in the past drastically reduced the value of their currency which in turn increase inflationary pressure on the developing economies. To obtain Nigerians view on redenomination of the naira, the study used Primary data source of data collection to collect data from Nigerians who understands what redenomination is all about. Questionnaire was distributed to 153 respondents. The data obtained from them was analyzed using simple percentage method. The study found that redenomination of naira can reduce inflation rate, improve the value of naira and can be used by CBN to reduce the quantity of money in circulation. The study recommends that Nigerian government should reconsider her stand on the suspension of redenomination of naira as proposed by the CBN in 2007 so as to reduce inflationary pressure mounted on the value of the naira and the economy by the devastated effect of covid-19, government should make concerted effort to stabilize the value of the naira by introducing economic recovery reforms such as support to small and medium enterprises, provision of infrastructure, job creation, export promotion and creating enabling environment for economy to grow and that implementation of redenomination has to be done in a way that its associated uncertainties and instabilities are minimized and macro-economic benefits maximized.

Keywords: Redenomination, Inflation, Devaluation, Decimalization, Currency, Naira

Introduction

The devastating effect of naira devaluation by our government to meet the conditions of obtaining loans from the western world in the eighties drastically reduced the value of naira. Many African nations succumb to the pressure of Currency devaluation from developed nations who usually use it as a condition to render economic help to developing nations. This currency devaluation reduces the value of developing nation's currency which results in the developed nation's currency having more value than that of the developing nations. When a nation's currency lost significant value over time such that basic domestic supplies and transport are paid with large sums of money and the inflationary pressure is high, such nations resort to redenomination to improve the value of their currency, reduce inflation and increase people's confidence in their currency. The loss in value of the currency increases inflation rate. Inflation cause currencies to loose significant value. Inflation is the major predicator for redenomination (Mosley, 2005). Nations whose currency have lost a lot of value such that it has lost confidence locally and internationally resort to Redenomination of their currency in order to revive their currency and their economy as well. This is because redenomination takes care of the excess cash in circulation in the economy. Though Nigeria is not presently experiencing hyperinflation, there is need to build up the value of naira in pursuance of national objection of making naira the Economic Community of West African State (ECOWAS) common currency.

Again, the poor leadership qualities and the corrupt attitude of our public office holders who prefer to steal our nation's wealth and to starch it abroad for their selfish interest rather than use it to develop our economy, aids the deterioration of the naira. This lead to inflationary rise in the country such that the use of lower denominations of naira currency is no longer accepted as a means of exchange. There is urgent need to resurrect the use of coin money in Nigeria, the coins need to be strengthened through redenominated so as to ascribe more values to it.

Redenomination of currency is normally applied to currencies that have lost significant values overtime. Countries with hyperinflation usually undertake redenomination of currency to take care of excess cash in their economy. For instance, in July 2007, the bank of Ghana began an exercise to redenominate the Cedi by resetting C1,000 to 1 new Ghana Cedi (GHC) the new one Ghana Cedi is also equivalent to 100 Ghana pesewa (Gp). Before the redenomination policy came into effect, the Cedi exchanged for about C1,000-\$1- N120, when Ghana's Central Bank resolved to redenominate their currency to Ghc1-\$1-N120. Before this change, you will require hundreds of thousands of Cedi to transact mundane daily expenses like food, transport and daily provision for the family.

The devastating effect of covid-19 on the world economy and Nigeria in particular has dealt a heavy blow on the value of Naira to the extent that Naira now exchanges up to 0.0026 –dollar as at September 2020. This has also increase the inflationary pressure to 13.39% as at September, 2020, Nigeria may need to reconsider the option of redenomination to reduce inflationary pressure and increase the value of naira globally.

Objectives of the Study

The main objective of the study is to critically examine redenomination of Naira currency as a strategy for inflationary reduction in Nigeria.

The specific objectives are:

1. To examine how redenomination of naira will be used to reduce inflation in Nigeria
2. To ascertain the effect of redenomination on the naira currency.
3. To study how redenomination of naira can improve the value of the currency.

Research Questions

1. Will redenomination of the Naira reduce inflation rate in Nigerian economy?
2. Can the Central Bank of Nigeria use redenomination of Naira to reduce the quantity of money in circulation?
3. Will naira redenomination improve the value of the naira currency?

Review of Related Literature

In 2019 Nigeria was named as one of the nations with ease of doing business. For Nigeria economy to grow, attract foreign investors and naira gain much credibility as to be a reference currency in West Africa, she should carry out more economic reforms; structural reforms, political and government reforms, ensure she maintains certain percentage of annual gross domestic product growth over a long period of time and focus on developing key area of the economy, increase integration into world trade and finance, increase commitment to Education, improve power supply, transportation and telecom infrastructure, create a more industrial economy, eliminate over dependence on primary commodities and greatly improve the business environment. To develop these key areas of the Nigerian economy there is serious need for a robust and vibrant financial system that will power the economy and this call for a stable and acceptable currency that commands confidence locally and internationally.

Pambudi, Juanda and Priyarsono (2014) opined that redenomination is the simplification of normal values of currency by reducing digits (zero numbers) without reducing the real value of economy. Ofeimun, (2007) revealed that the benefits 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. He described redenomination as a kind of 'Tsunami' and revolution on naira and urged Nigerians to see redenomination of currency as a definite end to structural adjustment programme (SAP). He blamed the rejection of redenomination of naira policy by the federal government on the advocates of SAP who so much believe in devaluation of currency

Samuelson (1976) defines inflation as a period of persistent rise in prices of goods and services, meaning that you need plenty of money to buy few things that you need. Nwaoba (2010) encouraged countries and their government to use redenomination to reassert their monetary sovereignty as money enhances or diminishes the legitimacy of government. He defined redenomination as a process where a new unit of money replaces the old unit with a certain ratio. Currency redenomination is different from currency decimalization. Decimalization is a process of converting from traditional currency redenomination to decimal system usually with two units differing by factor of 100. Soludo (2007) revealed that redenomination can be achieved by removing zeros from a currency with the aim of

correcting the macro-economic misalignment and enhancing the credibility of the local currency.

Redenomination restore sanity, credibility and facilitate transactions with smaller denomination that have increased value, it lowers their inflationary pressure. In the views of (Ofeimun, 2007); Soludo (2007), they portrayed that the redenomination reform proposed by the CBN in 2007, promises to make one new redenominated naira (N1) to equal the existing N100 and by equating that one with 1.25 dollars. This means that N1 will be equal to \$1.25 and N20 will be the highest denomination of naira. All these is an attempt to ease pressure of inflation from Nigeria economy.

One of the benefits of Redenomination of currency is that it makes pricing more efficient. It also makes book keeping and accounting easy. Considering the level of pricing and low purchasing power of the coins, prices generally adjust in discrete jumps of five or ten, rather than in kobo. Under the proposed naira redenomination, small denominations of currency will have relative value and this will correct distortion in pricing structure as well as have enormous impact on the national currency which will in turn lower inflation (Omobitan 2007).

According to Ghana news posted in the Ghana's Ministry of Finance website in 2008, it was observed that after the redenomination of Ghanaian cedi, inflation in Ghana nose-dived from 40% to 13.2% at the close of February 2008 and it is expected to fall within single digits which is one of the key objectives of Ghana's monetary policy. Also, it revealed that the exchange rate of the Cedi was relatively stable against the major currencies of the world.

Effect of Redenomination on the Currency

Redenomination of the Naira will increase the purchasing power of the currency. The Nigerian populace will have greater confidence in Naira as its acceptance will increase locally and internationally. Redenomination increases the exchange rate of the redenominated currency with other currencies. The reform will help the nation eliminate the use of high denominations with less purchasing power and replace it with new lower denominations that has loaded purchasing power. It will help Nigerian solve the problem of cash mobility thereby reduce crime in the country as well as reduce drastically the volume of cash for business transactions. Oshimowo (2007) reveals that redenomination of naira could make Nigeria's export expensive and less competitive and make import cheaper. He warned that the effect is beyond strengthening our currency but could make our export expensive compared with products elsewhere. Adeyemi (2007) in support of the reform declared that it would save the country from a possible revolution against the oppressive millionaire class. Omobitan (2007) was of the opinion that the plan to strengthen the naira, will make naira more buoyant. He argued that over the years Nigerian has been using pegged exchange rate before the structural adjustment programme. This made International Monetary Fund (IMF) to feel that naira was overvalued. According to him Naira was 'overvalued' because it was pegged N1 to \$1. Supporting the redenomination agenda, Dogarawa (2007) advised that government in a bid to reassert monetary sovereignty and raise the confidence of its citizens on their currency, should embrace redenomination to achieve that.

Adedipe (2007) opined that it will help naira gain credibility and the demand for naira will rise the same way it used to be in the 60's and early 70's. Olajide (2017) observed that

redenomination will allow the naira to be directly, easily linked and monitored against the dollar and it will reverse the tendency to hold more dollars against naira. He further opined that after redenomination, the economy usually seems a bit stable as the pressure of inflation and exchange rate might reduce in the short run.

This study is anchored on the consumer financial management and revaluation theory. The theory states that currency redenomination is linked to consumer financial strength which controls financial re-strategy management plan with the redenomination process affecting the currency configuration and not the market values of traded commodities. Redenomination theory does not establish any direct impact on inflation because they are not fundamental alteration on indicators that openly disturb inflation (Libor and Michal, 2015).

Empirical Review

In the study of Gwin and Putu (2017), on why redenomination is effective in one country but not in another using a panel data from World bank to estimate the impact of redenomination on macroeconomic variables which includes: inflation, real gross domestic product, per-capita income and real currency exchange. They found that redenomination significantly decrease estimated inflation rate and increase estimated real GDP per capita and also that redenomination has no significant impact on real currency exchange. They proffer that effectiveness of redenomination depends on government effectiveness and political instability.

Zidek and Chribik (2015) in their study on the impact of currency redenomination on inflation using Turkey as a case study. They discovered that redenomination in Turkey contributed to the disinflation process and that redenomination has a direct impact on inflation in Turkey. In their analysis, they used Chow test and Vector Auto regression model, they found a fracture in inflation development. They concluded that the process of redenomination has a direct impact on inflation in the country. Prabawani (2018) in the study of redenomination in Zimbabwe and Ghana observed that Zimbabwe removed three zeros while Ghana removed four. He said their aim of doing this is to restore confidence in their national currency and prevent their citizens from switching confidence to other countries currency with high value.

Samuel, Udo, Nneka, Prince and Idogen (2018) adopting variables that embrace only one redenomination indicator and with primary data collected from 124 respondents, they concluded that the victory and miscarriage of the policy was squarely the ability and inability to ensure squat and firm inflation, economic growth and price stability. Mosley (2005) in a paper presented at the annual meeting of the American political science association used survival analysis to test the expectations and data from 1960- 2003. He discovered that inflation is the important predictor of redenomination. He also explained that democratic government in a bid to increase the people's confidence in the currency, will not like to redenominate currency.

In the study of Pambudi, Juanda & Priyarsono (2014) on the determination of the factors of currency redenomination success with experimental and historical approach. They examined whether the economic condition at the time of redenomination may affect the success of the currency redenomination, employing regression analysis and historical data of 30 countries

which have redenominated their currency. The regression analysis revealed that inflation will decrease and economic growth will rise higher with redenomination. Their experiment also shows that if inflation is high, redenomination could increase selling price. Their survey portrayed that the public did not believe that government can control inflation after redenomination and that redenomination will not affect consumption pattern.

Lianto and Suryaputra (2012) studied "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 redenomination is efficient in controlling inflation in Indonesia. The result also revealed that the greatest impact of redenomination according to Indonesian citizens is restoring the credibility of Indonesian currency and that redenomination is favourable to Indonesian citizens.

Methodology

The study adopts the survey design. This allows the researcher to obtain data from the members of Chartered Institute of Bankers (CIBN) Anambra state chapter, Institute of Chartered Accountants of Nigeria (ICAN), Anambra state chapter and Registered Stock Brokers in Anambra state through primary source of data collection by the use of questionnaire. Structured questions were used which allow respondents to select their responses. The study used simple percentage method to analyze the data collected from the respondent's answer to the questionnaire.

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:

Banker	80
Accountants	65
Brokers	55
Total	200

Analysis of Research Question:

Out of the 200 questionnaire distributed, 153 were answered and returned by the respondents

Research Question 1

Will redenomination of the Naira reduce inflation rate in Nigerian economy?

	Frequency	Percent	Valid Percentage	Cumulative Percentage
Agreed	100	65.4	65.4	65.4
Disagreed	43	28.1	28.1	93.5
Uncertain	10	6.5	6.5	100
Total	153	100	100	

Looking at the table above, we observe that 65% or 100 respondents believe that redenominating the naira currency will reduce inflation while 43 or 28% of the respondents disagreed that redenomination will reduce inflation rate in Nigerian economy. 10 out of the 153 respondents are uncertain on whether redenomination can reduce inflation rate in

Nigeria. The results above have answered our research question in affirmative that redenomination of naira can reduce inflation rate in Nigeria.

Research Question 2

Can the Central Bank of Nigeria use redenomination of Naira to reduce the quantity of money in circulation?

	Frequency	Percent	Valid Percentage	Cumulative Percentage
Agreed	131	85.6	85.6	85.6
Disagreed	20	13.1	13.1	98.7
Uncertain	2	1.3	1.3	100
Total	153	100	100	

A total number of 131 or 86% of the respondents agreed that CBN can use naira redenomination to mop up excess cash in circulation in the Nigeria economy but 20 or 13% of the respondents did not believe that CBN can use redenomination of naira to reduce the quantity of money in circulation. Only 2 persons were uncertain about the efficacy of CBN using naira redenomination to reduce the quantity of money in circulation. We therefore answer our research question in affirmative that CBN can use redenomination of naira to reduce the quantity of money in circulation.

Research Question 3

Will naira redenomination improve the value of naira currency?

	Frequency	Percent	Valid Percentage	Cumulative Percentage
Agreed	98	64.1	64.1	64.1
Disagreed	30	19.6	19.6	83.7
Uncertain	25	16.3	16.3	100
Total	153	100	100	

Out of 153 respondents that returned their questionnaire, a total number of 98 or 64% of them agreed that naira redenomination can improve the value of the naira whereas 30 or 20% of the respondents did not agree that naira redenomination will improve the value of the naira. 25 or 16% of the respondents are not certain whether naira redenomination will improve the value of naira currency. The answer to our research question therefore is positive, that naira redenomination can improve the value of naira currency.

Discussion of Findings

The study revealed that redenomination can reduce inflation rate in Nigeria. 65% of the respondents studied believe that redenomination can reduce inflation in Nigeria economy. This finding was supported by Mosley (2005) who found that inflation is the major predictor of redenomination. He agreed with Zidek and Chribik (2015) that redenomination has a major impact in inflation. In their study of Turkey economy, they found that redenomination result in disinflation of the economy.

The findings from the study further revealed that redenomination of currency can help the Central Bank of Nigeria to reduce the quantity of money in circulation with 86 % of the respondents studied supporting its possibility. This means that government and regulatory

authorities can use redenomination to mop up excess cash in the economy. Gwin and Putu (2017) are in support that redenomination significantly decrease estimated inflation rate

On whether redenomination of naira can improve the value of naira currency, the study revealed that 64% of the respondents believe that the redenomination of naira can improve the value of the naira. This finding was in line with the findings of Zidek and Chribik (2015), they observed that redenomination improves as well as add credence to the currency.

Conclusion

Based on the results from the analysis of the questionnaires on redenomination policy, it was established that redenomination asides from improving the value of currency can also reduce inflation and excess cash in the economy. The paper therefore concludes that the policy of redenomination of naira is not a bad one and that government should support the policy since it can increase confidence and credibility on the naira.

Recommendation

1. For the value of the currency to be improved and inflationary pressure reduced to single digit, government should reconsider her stand on the suspension of redenomination of naira policy so as to reduce inflationary pressure mounted on the value of the naira and the economy by the devastating effect of covid-19 which has cause the prices of goods and services to be on the high side.
2. Though Nigeria is not experiencing hyper-inflation yet, government do not have to wait for hyperinflation to set in or for the value of naira to fall to the level that redenomination becomes the only option but should make concerted effort to stabilize the value of the naira by introducing economic recovery reforms such as support to small and medium enterprises, provision of infrastructure, job creation, export promotion and creating enabling environment for economy to grow.
3. Prior to redenomination, the populace has to be sensitized and educated on the intrigues of redenomination and the implementation of redenomination has to be done in a way that its associated uncertainties and instabilities are minimized and macro-economic benefits maximized.

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