

Are there Benefits of Naira Redenomination? Empirical Evidence from Ekiti State University

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Abstract - Redenomination of naira has constituted the themes and subject matters of many workshops, conferences and seminars. It has also made top headlines on pages of national dailies and periodicals and has also become subjects of debate in the academia. The consideration ranges from the objectives of naira redenomination to its benefits. Hence, the study examined the benefits of naira redenomination in Nigeria. It employed descriptive statistics with experimental research design and administered questionnaires to 120 randomly selected among lecturers and postgraduate students of departments of management science, economic and political science, Ekiti State University, Ado-Ekiti, Ekiti State, Nigeria. From the findings, it was discovered that there are many benefits of naira redenomination to Nigerian economy including efficient pricing, efficient payment system, easy conversion to other currencies, reduction cost of printing, distribution and processing of currency, portability of the currency units, reduction in transaction in efficiency, promotion of macro-economic stability etc. The findings concluded that the federal Government and Central Bank of Nigeria should revisit the policy, enlighten the general public about the benefits of naira redenomination and complement redenomination with infrastructural development in both rural and urban areas of the country.

Keywords: Benefits, Inflation, Macro-economic Stability, Naira Redenomination, Portability, Substitution.

I. INTRODUCTION

Since 1960, governments of developed and developing economics have redenominated their currencies on approximately seventy occasions (Mosley, 2005). Redenomination generally involves the process whereby a country's currency is recalibrated due to significant inflation and currency devaluation.

According to Mosely (Ibid), decision on denomination and design of currencies seem more technical than political, a policy of government's control and administration of its currency and transaction within its boundaries.

It was in a bid to ensure macro-economic stability and efficient payment system that Governor of Central Bank of Nigeria (CBN), Professor Charles Soludo, on August 14th 2007 made proposal to restructure the naira by dropping two

zeros to the left from the currency and issuing more coin denominations.

This was greeted with criticisms which led to its suspension by the federal government. Several scholars have attempted to examine the naira redenomination policy. However, it is crystal clear that a compressive evaluation of the benefits of naira redenomination is yet to be done. Most studies ignore its benefits to Nigerian economy. It is on this note that this study xrays the benefits of naira redenomination in Nigeria.

II. OBJECTIVES OF THE STUDY

The study was undertaken to achieve the following aims and objectives:

1. To identify the benefits of naira redenomination in Nigeria.
2. To proffer recommendations for the timing of kide-off of naira redenomination in Nigeria.

III. RESEARCH HYPOTHESIS

The following hypotheses were formulated

1. Ho: There are many benefits in the implementation of naira redenomination in Nigeria.
 - a. H1: There are many benefits in the implementation of naira denomination in Nigeria.

IV. LITERATURE REVIEW

Concept of Redenomination

Currency Redenomination is the process where a unit of money replaces the old unit with a certain ratio. It is achieved by removing zeros from the 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.

Amoako-Agyeman (2014) defines currency redenomination as the process whereby a country currency is recalibrated due to significant inflation and currency devaluation. He states further that currency redenomination consists of eliminating a specific numbers of zeroes from the currency and bringing everything that monetary scale. Suhendra (2012) refers to currency the redenomination as a public policy measure that simplifies the understanding, use and management of the national currency through its expression in a new and smaller equivalent scale. Neaoba (2010) regards to currency redenomination as an exercise by which countries and their governments attempt to reassert their monetary sovereignty, as money enhances or diminishes the legitimacy of governments. According to Mas (1995), redenomination may also extend to adding of zeros to the currency as recorded in the immediate post-independence period by South Africa (1961), Sierra Leone (1964), Australia (1966), Bahamas (1966), among others.

Reasons for Redenomination

Mosey (ibid) and Martinez (2007) ascertain that there are many reasons why a country will decide to redenominate its currency ranging from credibility and identity, to domestic and international politics.

Ghana (2007) lists the following as reasons for redenomination of the Cedi:

1. Simplifications of accounting records and the ease of expressing monetary value.
2. Re-introduce of the culture of using coins which will reduce pressure on bank notes.
3. Significant reduction in transaction volumes.
4. Reduction in the cost of carrying large volumes of bank notes and its associated risks.
5. Efficiency in payment system such as the use of ATMs.
6. Facilitating the introduction of the use of vendor machines and car parking meters.
7. Promoting tourist expenditures
8. Significant Cost savings to the Bank of Ghana in the cost of printing bank notes.

According to Tarhan (2006), other reasons for redenomination are: inflationary pressures, psychological effect, control of substitution and domestic politics.

He states further that turkey redenominated its, currency when turkey was experiencing hyper-inflation where a bottle of drinking water costs 300,000 TL, movie ticket 7,500,000 TL, Toyota Carolla 32,900,000,000 TL and GDP in 2002: 273,463,167,795,-000,000 TL (273 quadrillion) before the old Lira was redenominated by removing six zeros.

Another reason is the “feel good effect” of such reconstruction in currency basically presumes that the perception of the local currency would be enhanced because

people invariably begin to subconsciously relate current redenomination to revaluation (Lead Capital Limited, 2007).

Central Bank of Nigeria (2007) identifies reasons for naira redenomination. They include

1. Better anchor inflation expectation.
2. Easier conversion to major currencies.
3. Elimination of higher denomination notes with lower purchasing power.
4. Reversing tendency for currency substitution.
5. Promoting the usage of coin and thus a more efficient pricing and payment system.
6. Reduction of the cost of production, distribution and processing of currency.
7. Deepening of the forex market.
8. Ensuring more effective liquidity management and monetary policy.
9. Converting of the naira and hence greater confidence in the national economy and leading to greater inflow of foreign.
10. Positioning the Naira to become the reference currency in Africa.

Currency Redenomination in Nigeria

On the 16th of August 2007, the Central Bank of Nigeria announced major currency reforms aimed at repositioning the Naira as a reference currency in Africa. Under the reforms that was announced by the CBN Governor, Prof. Charles Chukwuma Soludo, the Naira is being transformed by dropping two zeros or moving two decimal point to the left. The restructuring, called naira currency redenomination in financial parlance or language will see the current N1,000 notes become N10, N500 become N5 and N100 become N1. With the policy, all Naira assets and contract will be redenominated from the 1st August, 2008.

Soludo (2007) states that the reforms would entail the phasing out of all the existing redenomination from the same date. It is viewed that under the policy proposal, any product that currently sells for N1,000 will expectedly be sold N10, while a contractor who is owed N1 million by the federal Government will be paid N10,000.

He further states that the plan will restore the value of the Naira in the short term to what it was in 1985 before the start of the structural adjustment programme.

He equally mentions the names of the countries that has undertaken the redenomination of their currencies, and they are Brazil (1967, 1970, 1986, 1989, 1990, 1993, 1994), Afghanistan (2002), Germany (1923), Angola (1995 and 1999) China (1955), South Korea (1962), Mexico (1993, 1996), Ghana (2007), Israel (1948, 1960, 1980, 1985), and Turkey (2005).

Mosley (ibid) lists the names of other countries that their currencies have undertaken redenomination. They include:

Uruguay (1993), Ukraine (1996), Sudan (1992), Russia (1998), Peru (1985, 1991), Poland (1995), Romania (2005), Argentina (1983, 1985, 1992), Azerbaijan (1992), Belarus (1992, 2000), Bolivia (1987), Chile (1975), Bulgaria (1999), Congo Democratic Republic (1993, 1998), (Croatia (1994), Georgia (1995), Latvia (1993), Lithuania (1993), Macedonia (1993), and Nicaragua (1998).

The major challenge being faced by such countries is to undertake other complementary reforms, particularly macro economic reforms that will underpin price stability and continuing Nigeria’s experience is likely to be different from others, having learnt from the experiences of other counties (Soludo, Ibid).

Central Bank Nigeria (CBN) (Ibid) announces a 4 – point agenda aimed at making the Naira the “reference currency in Africa” as part of the vision 2020.

The elements of the agenda are:

1. Currency Redenomination.
2. Adoption of Inflation – targeting framework for the conduct of monetary policy.
3. Sharing part of the federal Account fund in us dollars to deepen the forex market and for liquidity management.
4. Current Account liberalization/convertibility and accession to Article VIII of the IMF.

Risks Attached To Naira Currency Redenomination

In a study conducted by Alao (2011), he observes that there are many risks/challenges attached to Naira currency redenomination. They include cost of disposing of the old notes and coins, cost of printing new notes and minting new coins, cost of public education, enlightenment and advertisement etc.

Oluba (2008) argues that if the policies that supported high inflationary expectations as well as actual inflation are operative, redenomination of naira will still result in more inflation which may be higher than the expected post redenomination inflation rates.

He argues further that if the rate of post redenomination inflationary growth is not properly estimated which should be the case because of many reasons which comprise our loose fiscal disposition, poor understanding of the true monetary transmission mechanism, use of incorrect inflation index which do not incorporate changes in prices in instruments traded in several markets such as the capital market there is the tendency to either choose a ratio that may be in correct.

How Naira will be Re-denominated. It is by dropping two zeros from currency or moving two decimal places to the left.

The name of the national currency will still be the Naira. However during the transition period the existing Naira will be referred to as the old Naira and the new one be called the “New Naira”. After the transition period, the word “New” may be dropped for example the following equivalent will obtain as CBN redenominates.

TABLE 1 AUGUST 2007 PROPOSED TABLE OF NAIRA REDENOMINATION

OLD NAIRA (i.e. Existing Naira at today)	NEW NAIRA (as from August 2008)
50kobo	Half kobo**
N1	1 kobo coin
N2	2 kobo coin
N5	5 kobo coin
N10	10 kobo coin
N20	20 kobo coin
N50	50 kobo coin**
N100	N1 note
N200	N2 note **
N500	N5 note
N1000	N10 note
N2000	N20 note

Source: CBN (2007) * Not issued ** Will not be issued

V. BENEFITS OF NAIRA CURRENCY RE-DENOMINATION

According to Ogunleye (2007), the special benefits of redenomination include:

1. Reducing the cost printing, distribution processing of currency.
2. Discouraging the abuse of the naira as each naira note under the new naira will have relative high value and coins will dominate transaction at the lower end of the market.
3. Discouraging currency substitution and addressing the perception that the domestic currency is weak despite its stability.
4. Reducing the risk associated with carrying large physical as it dominate large denomination with very little value.
5. Cultivating the habit of using coins and reinforcing the on-going currency reforms.
6. Promoting more efficient payment system e.g. making ATM part of our payment culture and de-congesting banking halls instead of withdrawing N50, 000 from an ATM machine N500 of the new Naira will command exactly the same value.
7. Redenomination will make for easy conversion to other currencies. Naira as a reference currency will be easy for citizen or West Africa and other countries to convert to their currencies and other currencies.
8. Redenomination will make pricing more efficient. The level of prices and low purchasing power of the coin, prices generally adjust in discrete jumps of five or ten Naira policy.
9. Naira redenomination will help our exchange rate stability, elimination of multiple currency practices and bring about a stronger banking system.

Oluba (ibid) identifies benefits of naira redenomination. They include:

1. It reduces transaction inefficiencies.
2. It promotes macroeconomic stability
3. It helps a system to overcome and put behind the adverse impacts which the history of inflation in the past has had on the currency.

Alao (Ibid) confirms that redenomination of naira will fill the wide dollar – naira exchange rate gap to around N1.25: US \$1 as it was during pre-sap era. He confirms further that naira denomination will curb corruption among our leaders as they will not launder money into foreign banks again.

VI. RESEARCH METHODOLOGY

This study employs the experimental survey design. This methodology allowed the research to obtain data from a selected sample for an objective analysis and valid inference. The survey design also has the advantage of wider area coverage. This data relevant to this study was from selected sampled respondents.

Sample size and sampling Procedure

The sample size cuts, across lecturers and postgraduate students in departments of management science, economics, and political science, Ekiti State University, Ado-Ekiti, Ekiti State, Nigeria.

A total number of 120 respondents were randomly selected from among the identified stakeholders on naira redenomination

VII. DATA TREATMENT TECHNIQUE

The data generated from the research instrument were analyzed using chi-square test. The researcher choice of chi-square (χ^2) technique was informed by the nature of data obtained. Also, the suitability and ease of manipulation of data using the chi-square, buttressed the use of this test.

The formula for chi-square (χ^2) is given by:

$$\chi^2 = \frac{\sum(O - E)^2}{E}$$

Where:

Σ =summation

O=Frequency observed

E=Frequency expected

χ^2 =Chi-square

VIII. DECISION RULE

The null hypothesis would be accepted if the calculated value of the chi-square is less than the critical or tabulated value (i.e. accept H_0 If $\chi^2_{cal} < \chi^2_{crit}$). Otherwise reject.

IX. ANALYSIS AND FINDINGS

TABLE 1 MAKING PRICING MORE EFFICIENT

Responses	Frequency (Observed)	Percentage (%)
SA	56	47
A	50	42
D	10	8
SD	4	3
Total	120	100

Source: Field Survey (July 2016)

TABLE 2 PROMOTING A MORE EFFICIENT PAYMENTS SYSTEM

Responses	Frequency (Observed)	Percentage (%)
SA	50	42
A	56	47
D	10	8
SD	4	3
Total	120	100

Source: Field Survey (July 2016)

TABLE.3 MAKING FOR EASY CONVERSION TO OTHER CURRENCIES

Responses	Frequency (Observed)	Percentage (%)
SA	68	57
A	34	28
D	13	11
SD	5	4
Total	120	100

Source: Field Survey (July 2016)

TABLE.4 CULTIVATING THE HABIT OF USING COINS AND REINFORCING THE ON-GOING CURRENCY REFORMS

Responses	Frequency (Observed)	Percentage (%)
SA	84	70
A	24	20
D	6	5
SD	6	5
Total	120	100

Source: Field Survey (July 2016)

TABLE 5 REDUCING THE RISK ASSOCIATED WITH CARRYING LARGE PHYSICAL CASH AS WE ELIMINATE LARGE DENOMINATION WITH VERY LITTLE VALUE

Responses	Frequency (Observed)	Percentage (%)
SA	72	60
A	24	20
D	12	10
SD	12	10
Total	120	100

Source: Field Survey (July 2016)

TABLE 6 REDUCING THE COST OF PRINTING, DISTRIBUTION AND PROCESSING OF CURRENCY

Responses	Frequency (Observed)	Percentage (%)
SA	78	65
A	30	25
D	6	5
SD	6	5
Total	120	100

Source: Field Survey (July 2016)

TABLE 7 DISCOURAGING CURRENCY SUBSTITUTION AND ADDRESSING THE PERCEPTION THAT THE DOMESTIC CURRENCY IS WEAK DESPITE ITS STABILITY

Responses	Frequency (Observed)	Percentage (%)
SA	50	42
A	56	47
D	10	8
SD	4	3
Total	120	100

Source: Field Survey (July 2016)

TABLE 8 DISCOURAGING THE ABUSE OF THE NAIRA AS EACH NAIRA NOTE UNDER THE NEW NAIRA WILL HAVE RELATIVELY HIGH VALUE.

Responses	Frequency (Observed)	Percentage (%)
SA	66	55
A	30	25
D	12	10
SD	12	10
Total	120	100

Source: Field Survey (July 2016)

TABLE -2.9: PROMOTION OF MACRO-ECONOMIC STABILITY

Responses	Frequency (Observed)	Percentage (%)
SA	102	85
A	6	5
D	6	5
SD	6	5
Total	120	100

Source: Field Survey (July 2016)

TABLE10 REDUCING TRANSACTION IN EFFICIENCY AND OVERCOMING ADVERSE IMPACT OF INFLATION

Responses	Frequency (Observed)	Percentage (%)
SA	105	88
A	5	4
D	5	4
SD	5	4
Total	120	100

Source: Field Survey (July 2016)

As can be seen from table 1 – 10 more than 85% of the respondents agreed that redenomination of naira has many benefits the country.

X.TEST OF HYPOTHESIS

Ho: There are no significant benefits of naira currency redenomination in Nigeria

Responses	Frequency (Observed)	Percentage (%)
SA	20	30
A	36	30
D	46	30
SD	10	30
Total	120	100

Source: Field Survey (July 2016)

TABLE12 CALCULATED CHI-SQUARE VALUE OF BENEFITS OF NAIRA CURRENCY REDENOMINATION

Responses	O	E	O-E	(O-E) ²	(O-E) ² /E
SA	28	30	-2	4	0.13
A	46	30	6	36	1.20
D	46	30	16	256	8.53
SD	10	30	-20	400	13.33
					X ² = 23.19

Recorder’s computation from table 11 critical chi-squared value of 3 df 0.05 level of significance = 7.81473.

economic policy of Nigeria founded on socio-cultural ideals of Nigerians.

XI.DECISION /INFERENCE

The result of data analysis presented in table 12 reveals that the null hypothesis (Ho₂) is rejected and the alternative upheld because the calculated X² is greater than the critical X². That is, result of data analysis showed that there are many benefits of naira currency redenomination in Nigeria.

XII.CONCLUSION AND RECOMMENDATION

The paper discovered that there many benefits of naira currency redenomination in Nigeria including: efficient pricing, efficient payment system, easy conversion to other currencies, discourage currency substitution, reduction in cost of printing, distribution and processing of currency, portability of the currency units, discourage the abuse of the Naira, promotion of macro-economic stability, reduce transaction in efficiency and overcome adverse impact of inflation. The paper concluded that redenomination of naira has benefits in Nigerian economy.

Having critically analyzed the findings of this work, the following recommendations are made:

1. Naira currency redenomination should be revisited by Government and Central Bank of Nigeria for the sake of national interest.
2. Central Bank of Nigeria must enlighten the general public about the benefits of naira currency redenomination to the country. This will raise the level of awareness and reduce possible to resistance by the public.
3. National conference on the naira redenomination must be called for public scrutiny and debate.
4. Naira currency redenomination should be complemented with strict and disciplined fiscal policy measures.
5. Naira currency redenomination adoption should be complimented with infrastructural development both rural and urban areas and certain portion of Government expenditure should be devoted to uplifting the general standard of living.
6. Redenomination policy of naira should have local content by ensuring that is in tune with fundamental

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