

Currency Redesign and Monetary Policy of Nigeria: An Evaluation

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Abstract

The main goal of banknote redesign is to achieve certain goals, such as enhancing banknote security, preventing counterfeiting, protecting the nation's common legacy, managing the amount of money in circulation, and decreasing the total cost of currency management. This study examined the impact of currency redesign on monetary policy of Nigeria: an evaluation from 2015 to 2023. From the literatures reviewed, the redesigning of the Naira is for economic reasons which is not limited to reducing inflation, combating counterfeiting, checking financial insecurity and reducing the money in circulation. Other research argued that the policy rids the economy of a lot of 'black money', thereby helping it improve the health of the monetary system which enables the regulators to monitor the flow of funds in the country. In addition, studies contributed that currency redesign can minimize the influence of money on the country's electoral process by discouraging vote-buying and inducing of electoral officers. This study recommends among others that the Central Bank of Nigeria (CBN) can limit cash flow to all Banks, by providing leadership and ensuring that the Naira is not commandeered in bullion vans for the prosecution of Elections vis-a-vis the Bimodal Voter Accreditation System (BVAS) at every polling booth monitored by INEC.

Keywords: *Currency redesign, Monetary policy, Economic expansion*

1. INTRODUCTION

The basic form of money is numbers; currently the basic form of currency is paper notes, coins or plastic cards (i.e. credit or debit cards). Though this distinction between money and currency is important in some context, for the purpose of this study, the terms 'money' and 'currency' are used interchangeably (Gary, 1996). Money allows people to trade goods and services indirectly. It helps communicate the price of goods, and it provides individuals with a way to store their wealth. Money, whether it's represented by a seashell, a metal coin, a piece of paper, or a string of code, or electronically mined by computer, doesn't always have value. Rather, its total global value depends on it as a medium of exchange which people place on it.

There are over 180 currencies in the world circulating in 197 (Eurochange, 2022). There is the United States Dollar (USD), European Euro (EUR), Japanese Yen JPY, British Pound (GBP), Swiss Franc (CHF), Canadian Dollar (CAD), South Africa Rand (ZAR), Ghanaian Cedis, Nigerian Naira, etc. Altogether, there are 162 official currencies around the world of these 162, however, 47 currencies are tied to another with a fixed exchange rate. This means that, for example, the Danish Krone is a currency in its own, but is tied to EUR with a constant rate. Other countries like Bahamian dollar even correspond to the USD directly in 1:1 rate. The oldest currency still in use is the British Pound sterling. It spread over Great Britain and its various colonies like Nigeria, Ghana and others, for more than 1,200 years.

Some of the world currencies are reserved currencies. A reserved currency is a currency that is also used to a particular extent as a means of payment beyond its country of origin, like the US Dollar, the pound sterling and Euro are seen as the most reserved or anchored currencies in the world. These foreign currencies are held in significant quantities by central banks or other monetary authorities as part of their exchange reserves. The reserved currencies can be used in

International transactions, investments and all aspects of global economy. They are sometimes referred to as hard currencies or safe haven currencies. The become dominant of the reserved currencies is the US Dollar.

Perceptibly, monetary policy is adopted by the Central Bank of Nigeria (CBN) to stimulate collective demand through adjustable changes in money supply and interest rate. It also plays an important role in the redesign of the currency. The purpose of the currency redesign is to mop up the huge amount of cash that is outside the banking system, which currently estimated at 2.73 trillion or about 85% of the total cash in circulation. Economic factors driving the redesign of the Naira include lowering inflation, thwarting counterfeiting, reducing insecurity, and increasing the amount of money in circulation, as it is believed that 85% of all the country's cash is hidden away in houses outside of the banking system. Amassoma, Keji and Emma-Ebere (2018), explained that monetary policy is a vital tool which could be used to achieve currency management, price stability, and strengthen the growth of investment.

Studies show that currency redesign is a good approach to manage the money in circulation (International Monetary Fund, 2022; Whelan, 2010; Kregel, 2010). It is hoped to minimize the influence of money on the country's electoral process thereby discouraging vote-buying and inducement of electoral officers. However, many experts have argued that the timing of this exercise in Nigeria is always wrong, and this paper cannot agree less. Literatures available revealed that the CBN always plans to execute the currency redesign to effectively manage the flow of the currencies (CBN, 2015). And the short period notice is put in place to penalize those hoarding or laundering the Nigerian currency.

Monetary policy is enacted by a central bank to sustain a level economy and keep unemployment low, protect the value of the currency, and maintain economic growth hence the redesign of the naira.

Studies have shown that the urgent need to redesign and take control of currency in circulation in a country is to address the issue of hoarding of banknotes outside the banking system, the shortage of clean and fit banknotes in circulation, the increase in counterfeiting of high-denomination banknotes, interest rates and inflation, trade, laundering, market expectations among others may have resulted in the redesign of the naira note. This study is set out to evaluate the impact of currency redesign and monetary policy on the economy of Nigeria. This study is divided into five sections: introduction, literature review, methodology, conclusion and recommendation.

2. LITERATURE REVIEW

a. Currency Redesign

Brief History of Global Currency

Reserve currencies have come and gone with the evolution of the world geopolitical order. International currencies in the past have (excluding those discussed below) included the Greek drocfima, coin in the fifth century BC. The Roman denarii, the Byzantine solidus and Arab dinar of the middle ages and the French Franc. The Vientiane ducat and the Florentine Florin became the gold-based currency of choice between Europe and Arab world from the 13th to 16th centuries, since gold was easier than silver to mint in standard sizes and transport over long distances. It was the Spanish silver dollar, however, which created the first true global reserve currency recognized in Europe, Asia and America from the 16th to 19th centuries due to abundant silver supplies from Spanish America (Gary, 1996). While the Dutch guilder was a reserve currency of somewhat lesser scope used between Europe and the territories of Dutch colonial Empire from 17th to 18th centuries, it was also a silver standard currency fed with the output of Spanish American monies flowing through the Spanish Netherlands. The Dutch, through the

Amsterdam Wissel bank (the Bank of Amsterdam, were also the first to establish a reserve currency whose monetary unit was stabilized) through American monies output and Spanish fiat which can be considered as a precursor to modern day monetary policy (Coyle, Kim & O'Brien, 2021).

It was therefore the Dutch which served as the model for bank money and reserve currencies stabilized by central banks, with the establishment of Bank of England in 1694 and Bank of France in the 19th century.

The British Pounds Sterling, in particular was poised to dislodge the Spanish dollars hegemony as the rest of the world transitioned to the standard gold in the last quarter of the 19th century. At that point, the UK was the primary exporter of manufactured goods and services and over 60% of the world trade was invoiced in Pounds Sterling. British Banks were also expanding overseas; London was the world center for insurance and commodity markets and British capital was the leading source of foreign investment around the worlds; sterling soon became the standard currency used for International commercial transactions (Gary, 1996).

Attempts were made in Inter war period to restore the gold standard. The British gold standard Act reintroduced the gold bullion standard Act 1925. (10) followed by many other countries. This led to relative stability followed by deflation, but because the onset of the Great depression and other factors; global trade greatly declined and the gold standard fell. Speculative attacks on the Pound forced Britain entirely off the golden standard in 1931.

After the World War II, the International Financial system was governed by a formal agreement, the Bretton woods system under this system, the USD was placed deliberately as an anchor of the system, with the US government guarantying other central banks that they could sell their dollar reserves at a fixed rate for gold. In the late 1960s and early 1970s the system suffered setbacks ostensibly due to problems pointed out by Triffin dilemma – the conflict of economic interest that arises between short-term domestic objectives and long-term International objectives when a national currency also serves as a world reserve currency.

Additionally, in 1971, President Richard Nixon suspended the convertibility of the USD to gold, thus creating fiat global reserve currency system. However, gold has persisted as a significant reserve asset since the collapse of the classical gold standard (14). Following the 2020 economic recession, the IMF opined about the emergency of “a new Bretton woods moment” which could imply the need for a new global reserve currency system. John Maynard Keynes proposed the *bancor*, a super national currency to be used as a unit of account in International trade, as a reserve currency under the Bretton woods conference of 1945. The *bancor* was rejected in favour of US Dollar.

A report was released by the United Nations Conference on Trade and Development in 2010, which called for the abandoning of the US Dollar as a single major reserve currency. The report states that the new reserve system should not be based on a single currency or even multiple currencies but instead permit the permission of international liquidity to create a more stable global financial system. Countries such as Russia, China Central banks, and economic analysts and groups such as the Gulf cooperation council have expressed a desire to see an Independent new currency replace the dollar as a reserve currency.

History of Nigerian Currency

During the pre-colonial era, different cultures used a variety of items as mean of exchange. These included cowries, manilas, beads, bottles, and salts among others.

The first major currency issue in Nigeria was undertaken sequel to the colonial ordinance of 1880 which introduced the Shillings and Pence as a legal tender currency in British West Africa. The

units of coins managed by the bank of England were one Shilling per Pence, ½ Penny and 1/10 Penny were distributed by a private bank, the Bank of British West Africa till 1912.

From 1912 – 1959, the West African Currency Board (WACB) issued the first set of banknotes and coins in Nigeria, Ghana, Sierra-Leon and the Gambia. The highest banknote, while the WACB issued banknotes, coins were withdrawn. It was not until 1st July, 1962 that the currency was changed to reflect the country republican status. The banknotes which bore the inscription ‘Federation of Nigeria’ and now had ‘Federal Republic of Nigeria’ inscribed at the top. The notes were changed again following the misuse of the currency banknotes during the circular.

Sequel to the decision of the FG to change from metric to decimal, the name of the Nigerian currency was changed in January, 1973. The major unit of currency which used to be one Pound (1 Pound) ceased to exist and the one naira which was equivalent to ten Shillings became the major unit, while the minor unit was called the Kobo, hundreds of which made one naira.

On 11th February, 1977, a new banknote with the value of twenty naira note (N 20) was issued. It was the highest denomination introduced at the time as a result of the growth of the economy, the preference for cash transactions and the need for convenience. The Bank note was the first in Nigeria to bear the portrait of a prominent citizen, the late Head of State, General Ramat Murtala Mohamed (1938-1976) who was the torch bearer of Nigeria’s revolution in July, 1975. The note was issued on the first anniversary of his assassination as a fitting tribute to an illustrious son of Nigeria. He declared as a National Hero on 1st October, 1978.

The name “naira” was coined from the word Nigeria by Chief Obafemi Awolowo, First Premier of Western Nigeria who later became federal commissioner of finance. Till Dec. 1972, the official currency of Nigeria was Pound because Nigeria was the British colonial administration so, when the first naira was introduced, it replaced Nigeria Pound at a rate of 2 naira to 1 Pound. It made Nigeria, the last former colony to abandon the Pound currency system in favour of the decimal currency system.

The Central Bank of Nigeria (CBN) is the apex monetary authority of Nigeria located in Abuja, Nigeria, Africa, and was founded in 1958. The CBN issues legal tender currency in Nigeria; maintain external reserves to safe guard the international value of legal tender currency; promote a sound financial system in Nigeria; and acts as the banker of last resort, and provide economic and financial advice to the federal government of Nigeria (FGN).

Currency Re-design and Monetary Policy in Nigeria

Currency permits private and public-sector agents of different countries to interact in international economic and financial activity by using it as a means of payment, a unit of account or a store of value.

Over the years, the objectives of monetary policy have remained the attainment of internal and external balance of payments. However, emphasis on techniques/instruments to achieve those objectives have changed over the years. There have been two major phases in the pursuit of monetary policy, namely, before and after 1986. The first phase placed emphasis on direct monetary controls, while the second relies on market mechanisms. In 2021, monetary policy focused on easing the impact of shocks on the Nigerian economy which emanated from the various developments in the global and domestic economies (CBN, 2021). This prompted the widespread agreement in Nigeria that the financial crisis was both triggered and propagated by failures within the financial system. More open, however, remains the debate on its underlying causes.

In April 1984, the colours of all the banknotes in circulation in Nigeria were changed with the exception of the 50 Kobo banknote to arrest the currency trafficking prevalent at the time. In 1991, the 50K and ₦1 were both coined.

On 1st July, 1959 the Central Bank of Nigeria (CBN) issued Nigerian currency banknotes, while the WACB-issued banknotes and coins were withdrawn. It was not until 1st July, 1962 that the currency was changed to reflect the country's republican status. The banknotes which bore the inscription, 'FEDERATION OF NIGERIA', now had, 'FEDERAL REPUBLIC OF NIGERIA', inscribed at the top. The notes were again changed in 1968 following the misuse of the currency banknotes during the civil war.

Sequel to the decision by the government to change from the metric to decimal, the name of the Nigerian currency was changed in January, 1973. The major unit of currency which used to be £1 ceased to exist and the one naira which was equivalent to ten shillings became the major unit, while the minor unit was called the kobo; hundred of which made one naira. On 11th February 1977, a new banknote with the value of twenty naira (₦20) was issued. It was the highest denomination introduced at the time as a result of the growth of the economy; the preference for cash transactions and the need for convenience.

The banknote was the first in Nigeria to bear the portrait of a prominent Nigerian citizen, the late Head of State, General Murtala Ramat Muhammed (1938-1976) who was the torch bearer of the Nigerian Revolution in July, 1975. The note was issued on the 1st anniversary of his assassination as a fitting tribute to a most illustrious son of Nigeria. He was declared a national hero on 1st October 1978 (CBN, 2015).

On 2nd July, 1979, new currency banknotes of three denominations, namely ₦1, ₦5 and ₦10 were introduced. These notes were of the same size i.e. 151 X 78 mm as the ₦20 note issued on 11th February, 1977. In order to facilitate identification, distinctive colours were used for the various denominations. The notes bore the portraits of three eminent Nigerians, who were declared national heroes on 1st October, 1978. The engravings at the back of the notes reflected various cultural aspects of the country (The Guardian, 2022).

In April 1984, the colours of all the banknotes in circulation were changed with the exception of the 50 Kobo banknote to arrest the currency trafficking prevalent at the time. In 1991, the 50K and ₦1 were both coined. In response to the expansion in economic activities and to facilitate an efficient payments system, the ₦100, ₦200, ₦500 and ₦1000 banknotes were introduced in December 1999, November 2000, April 2001 and October 2005 respectively (CBN, 2015).

On 28th February, 2007, as part of the economic reforms, ₦20 was issued for the first time in polymer substrate, while the ₦50, ₦10 and ₦5 banknotes; as well as ₦1 and 50K coins were reissued in new designs, and the ₦2 coin was introduced. On 30th September, 2009 the redesigned ₦50, ₦10 and ₦5 banknotes were converted to polymer substrate following the successful performance of the ₦20 (polymer) banknotes. Thus, all lower denomination banknotes were now printed in the polymer substrate.

Finally, the CBN, as part of its contribution towards the celebration of the nation's 50th anniversary of Nigeria's Independence and 100 years of its existence as a nation, issued the ₦50 Commemorative polymer banknote on 29th September, 2010; and the ₦100 Commemorative banknote on 19th December, 2014 respectively.

The Central Bank of Nigeria Governor, Godwin Emefiele observed that over three trillion-naira notes are supposedly in circulation but merely a trillion have been accounted for by the banks. So, the presumption is that the remaining unaccounted couple of trillions are stockpiled somewhere.

In line with the provisions of section 2(b), section 18(a) and section 19(a) and (b) of the 1999 Nigerian constitution, the management of the CBN has sought and obtained approval of President of the Nigeria, President Muhammadu Buhari (PMB) to redesign, produce, release and circulate new series of bank notes of N200, N500 and N1000 at all levels". He added that, "in line with the approval, they have finalised arrangements for the new currency to begin circulation on December 15, 2022 after been launched by PMB. The new and existing currencies shall remain legal tender and circulate together until January 31, 2023 when the existing currencies shall cease to be legal tender (Tribune, 2022).

Apart from the politicians who stockpiled the bigger nominations, the redesigning of N200, N500, and N1000 will help to address some of Nigeria's security threats especially laundering, kidnapping and terrorism. According to sources, the purpose of the policy is to mop up the huge amount of cash that is outside of the banking system, currently estimated to be 2.73 trillion or about 85% of the total cash in circulation. This move therefore rids the economy of a lot of 'black money', and will help to improve the health of the system, strengthen security and enable regulators to monitor the flow of funds in the country (CBN, 2022).

Additionally, the monetary policy and currency design will help deepen financial inclusion by getting most people into the banking system. These sources believe this is a sine qua non to improving credit in the system and expanding productive activities, as well as usher in an improved cashless policy, and tighten the money supply which may combat inflation. While this may not be apparent to many Nigerians, only 4 out of the 54 African countries print their currencies in their countries, and Nigeria is one. Hence, a majority of African countries print their currencies abroad and import them the way we import other goods (Vanguard, 2022).

Acknowledging that international best practice requires central banks and national authorities to issue new or redesigned currency notes every 5 to 8 years, the President of Nigeria noted that it is now almost 20 years since the last major redesign of the country's local currency was done. This implies that the Naira is long overdue to wear a new look (Premium Times, 2022). This implies that a cycle of banknote redesign is generally aimed at achieving specific objectives, including but not limited to: improving security of banknotes, mitigating counterfeiting, preserving the collective national heritage, controlling currency in circulation, and reducing the overall cost of currency management.

METHODOLOGY

The research is based on a descriptive research design which was applied in picking the literatures reviewed on currency redesign and monetary policies in Nigeria and all over the globe. The targeted studies are based on all research conducted across the globe on the subject matter which is reviewed for this study to cover a period between 1999 and 2022. The time period is chosen for the sake of convenience sampling. Secondary data was employed as a source of evidence. Accordingly, the literature review was compiled from a variety of sources available on multiple online platforms and on print media.

CONCLUSION

A cycle of banknote redesign is generally aimed at achieving specific objectives, including but not limited to: improving security of banknotes, mitigating counterfeiting, preserving the collective national heritage, controlling currency in circulation, and reducing the overall cost of currency management. The currency redesign assists a country in the fight against corruption as such exercise would rein in the higher denomination used for corruption, and hence, the movement of such funds from the banking system could be tracked easily. Again, the CBN has

explained why it decided to redesign some naira notes. It acknowledges that the decision was taken because of the huge volume of counterfeit notes in circulation, money laundering and hiding of the naira notes amongst others. Based on this, the monetary policy of Nigeria is focused on easing the impact of shocks on the Nigerian economy which emanated from the various issues of the currency and developments in the global and domestic economies.

This study examined the impact of currency redesign on monetary policy of Nigeria: an evaluation from 2015 to 2023. From the literatures reviewed, the redesigning of the Naira is for economic reasons which is not limited to reducing inflation, combating counterfeiting, checking financial insecurity and reducing the money in circulation. From the literatures reviewed, the redesigning of the Naira is for economic reasons which is not limited to reducing inflation, combating counterfeiting, checking financial insecurity and reducing the money in circulation. Other research argued that the policy rids the economy of a lot of 'black money', thereby helping it improve the health of the monetary system which enables the regulators to monitor the flow of funds in the country. In addition, studies contributed that currency redesign can minimize the influence of money on the country's electoral process by discouraging vote-buying and inducing of electoral officers.

RECOMMENDATIONS

This study recommends among others that the CBN can limit cash flow to all Banks, by providing leadership and ensuring that the Naira is not commandeered in bullion vans for the prosecution of Elections vis-a-vis the Bimodal Voter Accreditation System (BVAS) at every polling booths monitored by INEC. Also, printing more currency notes will only reduce the inherent value of the currency in direct proportion to the number of additional currency notes printed. This implies that the value of currency notes increases only when the 'wealth' of the country increases. This wealth is typically measured in GDP, GNP etc. The more wealth a country creates and accumulates, the more valuable its currency notes become. Merely printing more currency notes will not make a country wealthy.

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