

Naira Redesign and Economic Growth in Nigeria: Prospects and Challenges

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ABSTRACT

This paper theoretically examines the effect of Naira redesign on economic growth in Nigeria. The objective of the study is to determine the economic implications of Naira redesign, reasons for redesigning Naira and the proposed relevance of Naira redesign policy of the Central Bank of Nigeria. The study discovered that the key rationale for currency redesign were to reduce the level of hoarding of money by affluent Nigerians, to mitigate counterfeiting of the currency and to control the amount of money in circulation with the view of controlling the rate of inflation in Nigeria. The study also discovered that there are both positive and negative sides to Naira redesign which includes the fact that Naira redesign could lead to reduction in the level of cash insecurity and money laundering, huge deficit cost to the economy, a rise in price level and the mitigation of counterfeiting in the economy. The study suggests that the redesign of Naira may not be the antidote to the consistent depreciation of the country's currency and the focus of the Central Bank of Nigeria should be the stabilization of Naira. The study concludes that Naira redesign is not the best thing to be done currently in the economy as it could lead to more challenges and so the Government of Nigeria should attend to more pressing issues.

Keyword: *Naira Redesign, Currency, Inflation, Money supply, Central Bank of Nigeria, Economic Growth*

1. INTRODUCTION

Currency restructuring entails the overhauling of all or some of the constituents that define a country's legal tender. Currency restructuring is also likened to the introduction of a new currency. The Nigeria currency Naira, which was introduced on January 1, 1963 was as a result of the decision made by the Nigerian government to change from the metric to the decimal. "The Naira would serve as a rebirth from the imperial system inherited from the British Colonial

administration. Through these years, Naira has evolved and so its redesign. In 1968, during the war, there were abuse of currency and trafficking as a result of the conflict and so the Naira was redesigned again. Obafemi Awolowo in 1973 supervised the creation of our indigenous currency. On July 2, 1976, the Naira had three denominations, which were; ₦1, ₦5 and ₦10. The notes were of the same size, that is, 151 × 78mm and by 1977, the ₦20 note was introduced making it the highest naira denomination, it was in memory of our fallen leader Muritala Muhammed who was mowed down by Coupist on the 13th of February 1976. The Naira notes had different designs and colours to differentiate them and facilitate identification.

In 1991, ₦50 was created and ₦100 was introduced in 1999. ₦200 and ₦500 were created in years 2000 and 2001 respectively. In the year 2005, ₦1,000 was introduced under the administration of Charles Chukwuma Soludo as Governor of Central Bank of Nigeria. The ₦20 was redesigned on February 28, 2007 as Polymer Substrate and there was also the redesigning of the ₦50, ₦10, ₦5. The success of the ₦20 note which was made from Polymer led to the redesigning of the ₦50, ₦10, ₦5 notes which meant that every banknote denomination was printed in the Polymer Substrate. On 29th September, 2010, the Central Bank of Nigeria (CBN) in honor of Nigeria's 50th anniversary issued a new ₦50 Commemorative banknote which was still made out of Polymer Substrate and eventually issued a ₦100 Commemorative banknote on December 19, 2014.

Recently, the current governor of Central Bank of Nigeria Godwin Ifeanyi Emefiele announced the redesigning of Naira which was carried out from November 23rd, 2022. The ₦200, ₦500 and ₦1000 have been redesigned and launched and the sole reason for this exercise according to the Governor of the CBN is to control the supply of money and aid security agencies in tackling illicit financial flows. Currency redesigning have been employed by various countries to maintain their monetary sovereignty and also to boost the confidence citizens have for their national currency so as to prevent dollarization or an increase in the demand for another country's currency which could lead to depreciation of such country's currency as a result of low demand for it. It is in the light of the above that the objective of this paper is to uncover the reason for the restructuring or redesigning of Naira, the benefits Nigeria's economy seeks to gain from the redesigning of Naira, and the challenges as well as prospects of the Naira redesign to the Nigeria economy.

2. REASONS FOR THE REDESIGNING OF NAIRA

Following the redesigning of the naira, the Central Bank of Nigeria has come up with reasons why naira has been redesigned.

i. Control of the Money Supply

The Central Bank of Nigeria will use the redesigning of naira as a tool for controlling the supply of money in circulation. If the demand for naira rises, then its value will rise too reducing the high rate of inflation and price level of goods and services in Nigeria. According to the Governor of Central Bank of Nigeria, currency outside the banking system grow by 133.04 percent to ₦2.68 trillion in August, 2022 from ₦1.15 trillion in 2015 as the current Nigeria president, Mohammadu Buhari just assumed leadership. The amount of money in circulation also increased by 108.44 percent from ₦1.54 trillion in 2015 to ₦3.21 trillion in August, 2022. The CBN's statistics shows that the supply of money in Nigeria increased to ₦3.21 trillion in August, 2022,

which represents 0.43 percent rise from ₦2.78 trillion in August, 2021. The redesigning of naira would also mop up much liquidity in circulation used to fund terrorists and other crime related activities like kidnapping, banditries etc.

ii. Reduction in hoarding

According to the Governor of the Central Bank of Nigeria, Godwin Emefiele, 80 percent of the naira currencies are outside the vaults of commercial banks. And with the redesigning of the currency, hoarding of banknotes by Nigerians, especially politicians and drug lords, will be reduced to the barest minimum.

iii. Proper Management and Increase in the amount of Naira in bank Vaults

One important reason for the redesigning of the naira is to ensure better and proper management of the currency and to increase the amount of naira in bank vaults. With people having to put their physical cash in the bank so as to get the new currency note. This will help reduce the amount of money in circulation and increase the amount of money in the commercial bank vaults. This could in turn encourage lending or lead to fall in interest rate as banks would increase their level of lending to the general public.

iv. Reduction of Inflation rate in the Economy

With the redesigning of naira, the rate of inflation is expected to fall resulting from a decrease in the amount of money in circulation which would be inevitable since people would have to deposit their monies at the bank to get the new naira notes. With a fall in the amount of money in circulation, the price level of goods and services will eventually fall as a reaction to the low amount of money in supply. This in turn will reduce the rate of inflation in the economy.

v. Reduction of Corruption and Embezzlement of Funds

According to the Chairman of the Economic and Financial Crimes Commission (EFCC), Abdulrasheed Bawa, the redesigning of naira notes would help in ensuring that hidden public funds are returned by fraudulent politicians thereby reducing the level of corruption and embezzlement of funds in Nigeria.

vi. The redesigning of naira is long Overdue

Following the global best practices, every country should redesign their currency every 5-8 years and the last time Nigeria redesigned her currency was over 20 years ago. This means Nigeria has to redesign her currency.

3. RELEVANCE OF NAIRA REDESIGN ON NIGERIA ECONOMY

According to the Central Bank of Nigeria, the redesigning of the naira banknotes is for the potential benefit of the economy as well as to improve on the level of security. The following are considered the relevance or importance of the redesigning of the naira currency:

i. The Control of Money in Circulation and Promotion of E-naira

The redesigning of the naira banknotes would mean people would have to put their old notes in the bank to enable them get the new notes. This in turn reduces the amount of money in circulation thereby reducing the rate of inflation. Since people would be forced to put their monies in the bank, it would encourage the cashless agenda complemented by a rise in use of the

e-naira. According to Mr. Godwin Emefiele, the Governor of the Central Bank of Nigeria, over 85 percent of the naira in circulation was outside the banking system and this was affecting the monetary policies of CBN which had to be put under control to ensure that the rate of inflation does not spike or rise uncontrollably.

ii. The Mitigation of Counterfeit

According to the Governor of the Central Bank of Nigeria, Nigeria has failed to adopt the global practice of redesigning, producing and circulating their country's currency after every 5-8 years as the naira has not been redesigned for over 20 years. As a result of this, it has given room for counterfeiting of the naira currency. According to the Governor, the recent photographic technology and advancements in printing devices have made counterfeiting relatively easier. The CBN recently recorded an increase in level of counterfeiting practices particularly in higher denominations like N500 and N1000 banknotes. In most cases, top government officials have been known to have illegally printed naira notes in large amounts and secretly kept them in warehouses, septic tanks, farms, underground places in their homes, among other secret places. According to Vanguard (2022), the activities of currency hoarders have become evident as very dirty, smelly Naira notes have been in circulation, especially since political activities heightened across the country-an indication that such notes must have been hoarded in damp places and for a long period of time.

iii. The reduction in the level of cash insecurity and money laundering

According to the Central Bank of Nigeria, redesigning of the country's currency would reduce the level of cash insecurity as it would encourage and advance the cashless policy which is believed to thwart the activities of criminals like kidnappers who demands cash to set their victims free. At first, cash would not be available to pay the ransom thereby reducing the level of cash insecurity. On the other hand, redesigning of the naira could be the government's ticket in reducing and even curbing money laundering in Nigeria. It is arguably true that some members of the public just move about with huge amounts of ill-gotten money they cannot invest or deposit into the banks because they are scared of getting caught by the authority. With the introduction of a new naira design, these money launders would be at a loss because since they cannot make deposits in the bank, in due time the money with them will be rendered useless.

4. CHALLENGES AND ECONOMIC IMPLICATIONS

The idea of redesigning naira might have its benefits in the economy but still might be faced with little challenges for it to be effected. Some of these challenges includes:

i. Huge deficit cost to the economy.

The redesigning of naira will impose huge cost on the economy with the Federal Government already struggling with a huge debt deficit and may likely have to borrow more money from external sources to completely fund the redesigning of the naira currency. This would increase the pressure on the economy. It will also cost billions and billions on taxpayers naira. There is a high cost of redesigning the naira, the logistics and printing. This would increase budget deficit, and lead to a high debt rate. In 2020, the cost of printing banknotes was over N58,613.50 million compared to now, the cost of logistics and printing would have doubled or even tripled.

ii. Rising Prices.

As a result of hoarding of money by politicians, they might try converting the naira notes to property since they cannot risk getting caught by the authorities depositing the notes at the bank. They would rather purchase luxury goods like cars, gold, make FOREX transactions that could inflate the economy. The redesigning of naira itself is not a remedy to rising inflation rate in Nigeria because, the Central Bank of Nigeria backing alone has no way of appreciating the value of naira in real sense.

iii. Aid Financial inclusion

At first, financial inclusion of rural dwellers who do not have banks located in their area would find it difficult to go to banks to dump the old notes in order to acquire the new notes. As a result of the non-existence of banks in these rural places, the people would have to go to urban areas where banks are located and this would lead to long queues at the banks, or delay before getting the new notes. Although, financial analysts are optimistic about this as it would lead to unbanked people entering into the banking sector by opening bank accounts with the banks. That is, it would introduce banking activities to the rural dwellers.

iv. Deadline of making deposits.

One major problem associated with the redesigning of naira is the fact that only 45 days from the day the new notes were introduced have been given to the people to make their deposit before the banknotes in their hands are rendered useless.

v. Absence of Banks in Rural Areas.

The people who live at rural places, where there are no banks established may find it difficult to make deposits at the bank. In most cases, they might have to travel out of those rural places to urban areas where banks are located which will lead to overcrowding at those banks making it more difficult and strenuous for the bankers and even the people. Owing to the short time given to make deposits in the bank, those without accounts might become victims of losing their monies. In this case, it would be advisable for the banks to allow for over-the-counter exchange of old notes for new ones.

vi. Fall in level of consumption

The fall in the amount of money in circulation as a result of redesigning the currency following the current economic condition in Nigeria would have a negative impact on the economy as the level of consumption would fall leading to a production decline and eventually, unemployment would rise since a larger percent of the Nigerian population are self-employed and require money (cash-based economy) to run their day-to-day businesses.

5. CONCLUSION

The Central Bank of Nigeria which is the apex regulatory bank is of the decision of redesigning naira which is yet to be fully circulated across the country. The impact of the naira redesign has both positive and negative sides on the economy. It appears that those who oppose the naira redesign are mostly of the opinion that the policy is being implemented at a very wrong time rather than being fundamentally against it. The problem of scholars' with the naira redesign is the fear of experiencing an all-out economic rush and spending more money on an already troubled economy. There is no way to predict the outcome of the new naira in circulation on or

before January 31, 2023 and until then, the policy has been put into effect and the deadline is close. People are speculating that the Central Bank of Nigeria would postpone the deadline so as to enable Nigerians to change their old notes for the new notes.

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