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THE POLITICAL ECONOMY OF CURRENCY RE-DENOMINATION BY COUNTRIES*

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INTRODUCTION

Currency redenomination is an exercise by which countries and their governments attempt to reassert their monetary sovereignty, as money enhances or diminishes the legitimacy of governments. It is the process where a new unit of money replaces the old unit with a certain ratio. Currency redenomination is usually achieved by removing zeros from a currency with the aim of correcting the macroeconomic misalignment and enhancing the credibility of the local currency (CBN, 2007). In the management of currencies, currency redenomination is different from currency decimalization, which is a process of converting from a traditional currency denomination to a "decimal" system usually with two units differing by a factor of 100.

Currency redenomination exercise itself falls within the realm of political economy, which looks at the interrelationships between political and economic processes of a nation and shows much concern on the political aspects of economic policy-making. It draws on the combination of economics, law and political science to explain how political institutions, the political environment and the entire economic system - whether capitalist, socialist or mixed influence each other (Encyclopedia Britannica). It may refer to very different things including simply the advice given by economists to the government or public on general economic policy or on specific proposals such as the one on naira redenomination exercise. In other words, it looks at the reciprocal influence of politics upon economics in the global system.

Currency, which is a unit of exchange that facilitates the transfer of goods and services, is one form of money, where money is anything that serves as a medium of exchange, store of value and a standard of value. Also, money is any approved currency issued by a central bank or monetary authority as the official unit of account for valuation of foreign exchange and payment of debts. Almost everywhere in the world, citizens view money solely as a medium of exchange that should facilitate transactions in the economy and affects people's identity. Governments are, therefore, concerned about the credibility of their national currencies and the effect of such currencies on national identity, hence they engage in activities such as currency restructuring, currency redenomination, currency decimalization, etc to keep in tune with domestic and international developments.

For Nigeria, the Central Bank of Nigeria (CBN), on August 14, 2007, unveiled its Strategic Agenda for the Naira, which contained measures to re-denominate the currency by August 2008. The argument in favour of redenomination was based on the need to re-align the naira with other currencies in the West African region as the Economic Community of West African States (ECOWAS) member countries prepare to move to a common currency (the Eco), possibly by 2015. It was also geared towards making the naira a convertible currency within the region. More so, the widespread confidence in naira purchasing power makes it popular and enhances the operation of the payments system within the region. However, the Government ordered the suspension of all actions of the CBN in the proposed redenomination exercise a week later, until an approval was sought for and obtained in writing from the president. This action of the Government created some psychological effects on the monetary authorities with many people giving the action various interpretations.

The objective of this paper is to articulate the reasons and conditions under which countries embark on currency redenomination exercises, and how successful these exercises had been over the years. The paper is descriptive with presentation based on literature reviews.

The rest of the paper is presented in four parts. Part II examines the conceptual framework of currency redenomination exercises by countries. Part III presents the experiences of various countries that had embarked on currency redenomination and the reasons for the exercises. Part IV presents Nigeria's experience in currency decimalization/redenomination. Part V summarizes and concludes the paper.

II. CONCEPTUAL FRAMEWORK

Currency redenomination goes beyond psychological effects, and must be associated with broader macro-economic and fiscal reforms for it to be effective. To some extent, redenomination exercise could as well be the last stage of a successful economic reform measure. Experience from some emerging market economies that had earlier embarked on currency redenomination exercises indicated that redenomination of currency units usually translates to significant efficiency gains, especially when viewed in the context of strong economic indices and macroeconomic stability.

The building of national identities is always one of the goals to be achieved in the creation of territorial currencies. So national currencies are of great values to the nationalistic believes of citizens of a country and hence deserve faith from the citizens, if it is to have its pride of place in the national

**The views expressed in the paper are those of the author and do not in any way represent the official position or thinking of the Central Bank of Nigeria. The author acknowledges the comments and criticisms of anonymous reviewer.*

heritage (Chigbu, 2007). According to Martinez (2007), when a large part of the population treats its own currency with disdain and engages in currency substitution, boosting the credibility of the national currency may or may not become a priority of the monetary authorities.

Governments attempt to reassert monetary sovereignty and counter citizens' loss of confidence in the national currency (IMF, 2003; Cohen, 2004), as was the case recently in Zimbabwe and Ghana, where three and four zeros were removed from the old Zimbabwean dollar and cedi, respectively (Mansah, 2007). This is because a loss of confidence by citizens of a country in their national currency may necessitate the use of foreign currencies, particularly those adjudged to have higher prestige. This could lead to dollarization (if the currency being adopted is the dollar), where a country gives up the option to print its own money, loses its ability to directly influence its economy, including its right to administer its monetary policy and any form of exchange rate regime. In fact, the central bank loses its role as the lender of last resort for the country's banking system (Cohen 2004), while the country's sense of pride is damaged. Increasing “dollarization” of the local economy weakens monetary sovereignty and the effectiveness of monetary policy. Governments attempt to reverse this currency-substituting behavior of their citizens through currency redenomination exercises (Mansah 2007). More so, condoning monetary substitution in any guise is, of course, a monetary policy in itself which involves very high costs.

Currency redenomination is a means by which credibility of a currency would be restored, as was the case in Turkey, leading to reduction in the nominal value of its Lira by six zeros (Mosley, 2005); or when countries are experiencing hyperinflationary pressures which have the effect of making their local currencies unattractive, as was the case before redenomination in Brazil, Argentina and Peru (Ajayi, 2007; Martinez, 2007). Several other countries had embarked on currency redenomination exercises over the years. These included Bolivia, Mexico, Nicaragua, Romania, Turkmenistan, Venezuela, Israel, Ukraine, Poland, Russia, Iceland, amongst others (see table 1).

According to Mas (1995) and Dogarawa (2007), redenomination also extends to adding of zeros to the currency as recorded in the immediate post-independence period by South Africa (1961), Sierra Leone (1964), Ghana (1965), Australia (1966), The Bahamas (1966), New Zealand (1967), Fiji (1969), the Gambia (1971) and Malawi (1971). From literature, there are indications that some governments shelve redenomination even in the face of, or the resolution of high inflation, while others embark on the exercise immediately after, and some others embrace it with some lags (Dogarawa 2007), and yet some countries ended up with decimalization.

There are arguments that redenomination exercise does not affect either the aggregate supply or aggregate demand of an economy in any significant manner but reduces the transaction costs. According to the GhanaThink Foundation, the ratio of factor prices as well as the ratio of input prices of final goods remains unchanged after redenomination. Other factors that are fully considered in currency redenomination include political variables, including Government's time horizon, the governing party's ideology, the fractionalization of the government and the legislature and the degree of social heterogeneity of the particular country (Mosley, 2005).

There is a strong belief that currency redenomination would not change the purchasing power of money and may not stimulate consumption in any significant manner, while investment is determined by real interest rate, tax rates and stability of government (GhanaThink 2007). The GhanaThink Foundation had argued that a government's spending is determined by the spending behavior of such government, while net exports would not change on account of redenomination. It was also the Foundation's view that redenomination neither affects the strength of currency which is determined by market forces, nor give the monetary authorities any justification to change money supply, or mean appreciation or depreciation of the currency.

In agreement with the Foundation, Edeh (2007) could not see how redenomination would affect the purchasing power and argued that it is not the name or amount you call the currency that is the purchasing power, but the rate and value of what it can buy. But in neo-liberal thought, according to Adejumobi (2007), re-denomination does not mean a revaluation of the currency, neither is it about state fixing and control of exchange rate, rather it is about changing the digits of the currency, which will not improve its value. Noting that currency redenomination is within the broad package of economic and political reforms, Mosley (2005) argued that while decision about the denomination and design of currencies may seem more technical than political, a government's control and administration of its currency, and more broadly, of transactions within its boundaries, is one of the hallmarks of the modern nation-states.

In the view of Odetunde (2006), manipulating the zeros is equivalent to looking for more efficient method of solving same problem in computational fluid dynamics. But Cohen (2004) pointed out that when an instrument that was intended to symbolize the power or nobility of the nation becomes instead a daily reminder of inadequacy and impotence, not sound currency but 'funny money', and an object of derision or disrespect, governments that issue such currencies are not apt to command much more respect.

Gaisie (2007) noted that currency redenomination exercise is embarked on after consideration of certain measurement indicators, besides the subjective indicators of feel, neatness, portability, convertibility, etc, that are commonly recognizable by the public. Quoting from the Daily Graphic article (2007), Gaisie pointed out that “between 1985 and 2005 most countries which redenominated their currencies did so from the standpoint of high inflation and lowly valued local currency”. He argued that the total cost of the redenomination exercise is not just an issue of printing and minting costs, but also an assurance that it would not trigger some inflationary trends initially, since it is a normal occurrence that interventionist economic activities trigger some form of inflationary or deflationary trends.

Analyzing the redenomination exercise in Ghana, Onochie (2007) argued that the cedi was neither devalued nor re-valued, but only redenominated as an extreme measure of liquidity squeeze to enhance the value of the Ghanaian currency and make it more competitive. He stressed that for over five years, Ghana experienced consistent macroeconomic stability, declining inflation and interest rates, and currency stability which restored the role of the cedi as a store of value, with commitment to monetary and fiscal prudence.

During chronic inflation, the monetary authorities have a choice between a large redenomination ratio and a small redenomination ratio. It is argued that the use of a small ratio may call for further redenomination as soon as possible, which will entail costs in the financial, accounting, and computing industries, while a large ratio may result in inconveniently large or small prices at some point in the cycle. This may have informed why many countries that embarked on currency redenomination based on inflation had to repeat the exercise several times (see table 1). In fact, there are indications that redenomination alone had not curbed inflation on its own nor the exchange rate stabilized due to a redenomination exercise, rather these macroeconomic variables will stabilize by strengthening the economy through adequate management of the economic resources. Establishment and joining of a monetary union may also call for currency redenomination.

According to Wikipedia Encyclopedia (2007), most countries started with decimalization of their currencies before some ventured into redenomination. Russia was the first to convert to a decimal currency when in 1710 the ruble was set equal to 100 kopechs. The United States of America introduced decimal currency with the dollar in 1792, while France introduced decimalization in 1803 up to the countries where it occupied. Canada, Sri Lanka, South Africa, Australia and United Kingdom decimalized their currencies in 1858, 1869, 1961, 1966 and 1971, respectively. Nigeria decimalized her currency in 1973.

From literature, the common ingredients of a Redenomination Policy are double posting of prices, in both old and new, including foreign exchange rates; expression of exchange rates at four decimal places without any rounding off; and in some countries, there are no limits for exchanging the old notes and coins, while in some other countries limits were imposed. Some countries are, however, very cautious about redenomination. In 2007, South Korea's won to a dollar was 932, Hungary's forint was 216 and Japan's yen was 117, yet these countries deemed it not appropriate to redenominate their currencies (Mosley, 2005; Dogarawa 2007).

The overall objective of redenomination in some sense is to ensure credibility (Mosley, 2003; IMF, 2003). Enhanced credibility can improve government electoral fortunes as the citizens' reward of economic growth and macroeconomic discipline (Armijo, 1996; Stokes, 2002 in Mosley, 2005). Cohen (2004) posits that national currency not only facilitates economic transactions but affects citizens' identity and subsequently the legitimacy of the national government.

Certain governments adopt redenomination strategies in order to improve on their monetary sovereignty and control tendency for currency substitution. If people do not value their local currency, they begin to use foreign currency. Aluko (2007) provides list of many African and non-African countries whose citizens almost lost confidence in their currencies. According to him, as at July 2007, a US dollar ($1) exchanges 9,270 cedi in Ghana; 9,426 rupiah in Indonesia; 9,861 franc/ariary in Madagascar; 10,184 kip in Laos and 15,921 dong in Vietnam.

But in the views of the organized private sector in Nigeria, the currency redenomination policy would have had a psychological impact of a strong currency relative to other currencies, but they were quick to point out that the naira had not degenerated to a level that calls for a re-denomination which they felt would disrupt the pricing equilibrium and mechanism in the economy. Furthermore, it was argued that Brazil, Argentina, Mexico and Turkey have successfully gone through redenomination exercises but the zeros still came back, thereby making the benefits of redenomination illusive and credibility lost. Opposition to redenomination exercise was also found to hinge on personal interests arising from the uncertainty on the effect of the exercise on peoples' wealth/assets, especially the bourgeois and the political class.

There are further arguments that most persons opposed to redenomination exercise do so because of unfounded or superficial considerations. For instance, it was argued in the case of Nigeria that the bias towards the redenomination policy was merely to protect the interest of bureau de change operators (and other speculators in the foreign exchange market) which was erroneously perceived to be threatened by the exercise. It was also argued that redenomination has an implicit revaluation tendency if not properly implemented. Further argument posits that producers respond to changes in relative prices, while redenomination does not change the relative prices in any economy.

From literature therefore, many positive reasons for redenomination of a country's currency will include the reassertion of monetary sovereignty, enhancing the credibility of the national currency, boosting of confidence in the currency as a national identity, enhancing efficiency gains and macroeconomic stability, reduction of the phenomenon of money illusion, inflation, portability and easy convertibility of the currency, as well as other political and economic variables, especially the psychological impact of a strong currency relative to other currencies. Among the several reasons why countries undertake redenomination is also the simple but obvious reason that it simplifies the mathematics of currency transactions as extra zeros put a burden on accounting and statistical records, data processing software, and payment systems.

III. COUNTRY EXPERIENCES

Ever since the Breton Woods system's crisis came about in 1970, Latin American countries had witnessed a significant number of currency redenomination measures. But in most cases, governments have been forced to repeat the exercise, time and again, within a relatively short span of life, until results finally showed up in some cases. In many Latin American countries, most of the redenomination exercises took place during the institutional reform of monetary policies of the early 1960s, as redenomination was generally believed to be an exercise used to clear the effects of past inflation. In some Latin American cases, currency re-denomination capped-off high levels of inflation and heralded the abating of hyperinflation. In those days, average inflation in the Latin America region reached a high of nearly 500 per cent, and some of the large countries within the region namely Brazil, Argentina and Peru posted quadruple-digit inflation rates.

The experiences of some of the countries in currency re-denomination exercises are as presented below.

Argentina

Argentina saw four revaluation/ redenomination exercises between 1970 and 1992. The redenomination of 1992 marked the culmination of dramatic economic reform packages in the country. The old Argentine unit, Peso argentino was completely changed to a new unit, Argentine austral in 1985. However, episodes of hyper-inflation led to the introduction of Argentine peso which replaced the austral at a rate of 1:10,000 in December 1991. Caballero (2000) cited Argentina among the nations that adopted redenomination to save their currency from absolute neglect and restore some sort of regard to it in 1982 when it exchanged 180,000 pesos ley to one dollar.

Bulgaria

Bulgaria and Poland are two economies which are usually considered as near success stories in relation to redenomination of currencies. Even at that, Bulgaria redenominated its currency in mid-1999 when its year-on-year inflation was close to 1.2 per cent by cutting three zeros off the currency. Twelve months later, the year-on-year inflation was close to 12 per cent or ten times higher than what it was prior to redenomination.

Poland

On the part of Poland, the country's currency, marka, was rescued by monetary authorities' increase in key interest rates by 600 basis points (6 per cent) in 1999 in order to curtail the inflationary pressure generated by redenomination.

Brazil

In less than 25 years, Brazil went through six currency re-denomination exercises, and for the six times it failed to curtail inflation in the economy. The major challenge facing the exercises was increase in inflation and inflationary pressures after redenomination. In all cases, episodes of hyper-inflation led to redenomination exercises in Brazil and change of currencies, especially the replacement of the cruzeiro real by the Brazilian real in 1994. Three major effects which had always negated the positive impact of redenomination are inflationary effects of rounding-off figures, the effects of psychologically lower income levels and the threat of going back to multiple zeros due to inflation.

Ghana

The cedi was first introduced in 1965 to replace the British Pound and was then pegged at 2.4 cedis to one pound. This first cedi was replaced in 1967 with a second cedi which was worth 1.2 of the old cedi which allowed for decimal conversion with the pound at the rate of one pound equal to 2 new cedis. The value of the second cedi introduced in 1967 continued to degenerate amid high rate of inflation in the domestic economy, especially when measured against major international currencies; to the extent that the exchange rate was between 9,050 and 9,600 cedis to one US dollar between 2006 and July 2007 (Onochie 2007). The second cedi regime places significant burden on the Ghanaian economy in terms of high transaction costs and increasing complexity in financial transactions, and the strain on the payments system.

Table 1: Countries attempts on Currency Redenomination

Countries	Action	Period (Chronological)
Russia	3 zeros in 3 operations	(1947/1961/1998)
Bolivia	9 zeros in 2 operations	(1963/1987)
Brazil	18 zeros in 6 operations	(1967/1970/1986/1989/1993/1994)
Argentina	13 zeros in 4 operations	(1970/1983/1985/1992)
Israel	9 zeros in 2 operations	(1980/1985)
Iceland	2 zeros in 1 operation	(1981)
Peru	6 zeros in 2 operations	(1985/1991)
Mexico	3 zeros in 1 operation	(1993)
Poland	4 zeros in 1 operation	(1995)
Ukraine	5 zeros in 1 operation	(1996)

Source: (i) 'Redenomination of Naira is Wasteful' by Brickfield Road Associates; The Nation, August 16, 2007 (ii) "Dropping Zeros, Gaining Credibility? Currency Redenomination in Developing Nations" by Layna Mosley (2005).

On July 1, 2007, Ghana again redenominated its currency, the cedi, by making one new Ghanaian cedi (GHc) equal to 10,000 old cedi (c), i.e. by dropping four zeros. The exercise was implemented to forestall inflation, make the cedi more competitive and reduce the cost and risks associated with carrying large quantity of currency notes. At present, c50 is the highest currency denomination in Ghana. Ghana's new top denomination, the 50 cedi bill, is worth $50. The previous top denomination was worth just $2.22. The new notes and coins have the same purchasing power as the earlier existing ones. Blake (2007) observed that the change came with challenges, as the Ghanaian population had to adjust to the new currency.

Romania

According to The Federal Research Division of Romania (2006), Romania had earlier redenominated in 2003 when the Leu exchanged for 33,200 to a dollar. The country had to again revalue its legal tender, the Leu on July 1, 2005 to a new Romanian Leu, the RON. The fixed conversion rate between the old Leu was 10,000 to RON 1, while one new RON is divided into 100 subunits named bani. The country allowed July 1, 2005 June 30, 2006 for double posting of prices, both in old and new Leu. As at July 2005, all taxes, charges, contributions and other amounts owed to the consolidated general budget were determined and recognized in the accounting records in RON. Also, basic pays and pensions regardless of the financing source, and unemployment benefits were rounded off to RON in favour of the recipient.

The redenomination of the Leu was designed to simplify domestic monetary transfers and calculations, and was seen to be a necessary transition phase in preparation for Romanian's integration into the European Union as well as the country's eventual adoption of the euro as its domestic currency (Leroy and Mindru, 2005). In order to ensure certainty and continuity of outstanding contracts, the redenomination laws provided that the conversion takes place automatically by virtue of law, hence there was no need for agreements or contractual amendments to existing documentation. The conversion of payments instruments and bills issued before July 1, 2005 in old currency were made on settlement date and at the same fixed conversion rate.

Russia

The Russian government announced a redenomination policy for the ruble effective January 1, 1998 to assure the public that the country's economic crisis was over. Inflation was on the decline, falling from 875 per cent in 1993, to 200 per cent in 1995 and further, to 15 per cent, in 1997. However, the redenomination did not mark the end to the country's hard times as inflation returned in 1999. The well known failure of Russia in 1998/99 is an example of a failed redenomination exercise. Russia slashed off three zeros from its currency in 1998 when inflation was only 15 per cent year-on-year and twelve months later worsening macroeconomic conditions pushed up inflation to over 120 per cent. The Russian case is a clear indication that in the absence of sound monetary and fiscal stabilization policies/reform, redenomination will not halt inflation.

Turkmenistan

The Central Bank of Turkmenistan issued the details of the redenomination plan of the national currency mantas in 2008, and the new bank notes were introduced on January 1, 2009. After the introduction of the new currency, a U.S. dollar bill was equal to 2.8 manats instead of the former value of 14,000 mantas (NCA, 2008). The exercise according to the Central Bank, was meant to ensure effectiveness and as a means of achieving the main objectives of the monetary reforms. According to NCA, the tax service of Turkmenistan and Ministry of Trade are jointly responsible for control of cash registers, issuance of receipts showing new prices and supervision of shops and retail outlets to ensure that price tags are marked in both new and old currencies.

Turkey

In January 2005, Turkey replaced its currency, the lira, with the new Turkish Lira with a conversion rate of one million of old lira to one new lira. The Turkish government was motivated by the fact that multiple zeros complicated both statistics and transactions within the economy, and that so many zeros in the lira had negative effect on the credibility of the national currency. According to Mosley (2005), one US dollar was equivalent to 1,500,890 lira in Turkey in 2003, which had a 20,000,000 single local currency bill.

Venezuela

A redenomination of Bolivar, the Venezuelan national currency, came into effect on January 1, 2008. Earlier in March 2006, and enabled by Especial Powers Act, the Executive Branch had issued a Decree that knocked three zeros off the banknotes and ordered a large amount of coinage representing cents and fractions of cents.

Zimbabwe

Zimbabwe redenominated her currency, dollar, not quite long ago. The country embarked on currency redenomination which wiped out three zeros off the $20,000 Zimbabwean bill into a $20 bill. The local currency had been rendered almost worthless by years of inflation that hit 1,200 per cent a year. Zimbabweans had to carry large satchels full of banknotes to pay for even the most ordinary and small transactions (Martinez, 2007). The $20 bill actual value after the redenomination (10 American cents at official rates, less than 3 cents at black market rates) remained unchanged. To a greater extent, hyperinflation had remained the same.

Other countries

The Icelandic krona, meaning 'crown', was separated from the Danish krone after the dissolution of the Scandinavian Monetary Union at the start of World War I and Icelandic autonomy from Denmark in 1918. The first coins were issued in 1922. Yugoslavia slashed nine zeros from the dinar during its redenomination exercise, while Bolivia has redenominated her currency, peso, twice since the 1980s. Mexico's 1993 revaluation put an end to one of the worst financial crisis which at a time took a continental dimension. Nicaragua on its part had its currency, Cordoba, redenominated twice in less than three years, starting in 1988 and Peru has redenominated her currency, inti, twice since the 1980s. Most countries redenominated their national currencies due to inflation, while a few of them embarked on the exercise due to hyperinflation and the establishment of Monetary Union.

IV. THE NIGERIAN EXPERIENCE IN CURRENCY DECIMALISATION/REDENOMINATION

The Naira is the currency of Nigeria and was introduced on January 1, 1973. There are three denominations in coins namely 50k, N1 and N2, while the eight denominations of the banknotes are N5, N10, N20, N50, N100, N200, N500 and N1000. The Central Bank of Nigeria (CBN) is the sole issuer of legal tender currency and controls the volume of money supply in the economy in order to ensure monetary and price stability. Other principal objects of the Bank include the maintenance of external reserves to safeguard the international value of the legal tender currency, promoting a sound financial system in Nigeria, and acting as banker and providing economic and financial advice to the Federal Government (CBN, 2007). In the pursuit of the achievement of these objectives, the CBN conducts monetary policy by which it influences the demand, supply and, hence, price of money and credit in order to direct the nation's economic objectives, and supervises and regulates the nation's banking system.

The Bank is equally in charge of currency management, through the procurement, distribution and supply, processing, issuing and re-issuing, and disposal of bank notes and coins. Heakal (2008) had argued that time has proven that the Central Bank can best function in these capacities by remaining independent from government fiscal policy and, therefore, uninfluenced by the political concerns of any regime. This is because government's undue intervention, whether direct or indirect, can inhibit central bank's development.

The Central Bank of Nigeria (CBN) had put in place several measures to ensure that macroeconomic variables, including inflation, interest and exchange rates, move in the desired direction before it announced the redenomination policy on August 14, 2007. Of course, not every country with high levels of inflation has chosen to re-denominate its currency. Those countries that have taken the road to redenomination have first of all put into effect strong painful measures to abate hyperinflation. However, redenomination is not without its cost, especially fixed cost in view of the fact that it takes human and material resources to implement. But experience has shown that redenomination is usually successful when there is macroeconomic stability, declining inflation and interest rates, stable exchange rate and currency stability, fiscal prudence and well anchored expectations of policy confidence.

To ensure success, therefore, certain economic fundamentals are normally put in place before embarking on currency redenomination. These include reducing inflation to a manageable level, stabilising the exchange rate, and having a strong and efficient financial system. To a greater extent, most of these factors were going for Nigeria as at August 14, 2007 when the CBN rolled out the Strategic Agenda for the Naira, whose thrust focused on the naira as the national currency, and aimed at realigning its denominations and effecting its redenomination, ensuring its stability and global integration. There was macroeconomic stability, declining inflation and interest rates, stable exchange rate and currency stability. In fact, the CBN had strengthened the institutional framework for the conduct of monetary policy, recapitalized the Nigerian deposit money banks and reformed the payments system for efficiency, as well as improved transparency and corporate governance. In addition, Nigeria was without a high debt burden after the debt relief secured from the Paris Club of Creditors in 2006, and had as much as possible eliminated multiple currency practices that were hitherto prevalent in the system.

In announcing the currency redenomination policy as a major plank of the agenda, the Bank explained that it was part of the on-going economic reform agenda (Soludo 2007). Other components of the agenda include the adoption of inflation-targeting framework for the conduct of monetary policy; sharing part of the federation account allocation in US dollars to deepen the foreign exchange market and for liquidity management; and current account liberalization/convertibility and accession to Article VIII of the International Monetary Fund (IMF). The Bank saw redenomination as the next logical step in the entire financial sector reform agenda.

The Government, however, suspended the redenomination exercise barely a week later, citing violation of Section 19, Sub-sections 1 and 2 of the CBN Act, as amended severally. The Act stipulates that "the standard weights and composition of coins issued by the Bank and the amount of remedy and variation shall be determined by the President on the recommendation of the Board" (CBN 2007). The suspension may have also been hinged on the theory of the political business cycle, which claims that governments suspend their particular policy orientation, especially in the run-up to election, in favour of policies which enhance popularity with voters (Concise Encyclopedia Britannica). In this case, the political class may not have been sure of the extent of the effect of the re-denomination exercise on their secured wealth/assets, and their popularity and electability/re-electability.

The redenominated naira was billed to make N20 note the highest denomination of currency in the country, with existing higher denominations of the naira trading off double zero units from the right or moving two decimal points to the left. All the naira assets, prices and contracts were to be redenominated. The CBN had stated that it will make the naira fully convertible against foreign currencies by 2009 and posited that the implementation of the policy would see a strong naira against major international currencies. The move, according to the Bank, was also to help in the management of inflation and liquidity, assuring that it would not lead to a loss in the value of the naira (rather the policy would enable the naira take its place in the international economy). The policy was in pursuit of the desire of the Bank to create conducive macroeconomic environment that would enable the Government's programme work effectively.

According to CBN (Money watch 2007), the new agenda will:

Better anchor inflation expectations and strengthen public confidence in the naira;

Make for easier conversion to other major currencies and reverse tendency for currency substitution;

Eliminate higher denomination notes with lower purchasing power and reduce the cost of production, distribution and processing of currency;

Promote the usage of coins and thus a more efficient pricing and payments system, promote the availability of cleaner notes;

Deepen the foreign exchange market and ensure more effective liquidity management and monetary policy; and

Ensure the convertibility of the naira and hence greater confidence in the national economy and lead to greater inflow of foreign investments.

In the view of the Bank, redenomination policy for Nigeria was not to translate to revaluation, as market forces were to continue to determine the prices, including interest rates and exchange rates, with the expectation that inflation will be low while exchange rate will appreciate. Under the redenomination programme, banknotes were to be issued in denominations of new 50k (old N50), new N1 (old N100), new N2 (old N200), new N5 (old N500), new N10 (old N1000); that is dropping two zeros, while a new N20 would have been the highest currency denomination in Nigeria. Although the Government explained that the suspension was without prejudice, most analysts argued that the redenomination exercise was within the mandate of the CBN.

The CBN first issued Nigerian currency notes and coins on July 1, 1959, which was, hitherto, the responsibility of the West African Currency Board from 1912 to 1959. The legal tender status was changed to reflect the country's new independent status on July 1, 1962 (see Table 2). The currency was changed again in 1968 as a war strategy and the currency names remained pound and shillings. As a result of the recommendations of the Decimal Currency Committee of 1962, Nigeria adopted the decimal system on January 1, 1973. The currency name was further changed on that date from pound, shillings and pence to Naira (major currency equivalent to ten shillings) and Kobo (minor currency, 100 of which makes one naira).

Table 2: The Changing Structure of the Nigerian Currency

Year	Currency	New Denominations	New Features and Remarks
Before 1912	Cowries, Manilas, etc.		
1912	WACB Notes and coins		
Jul. 1, 1959	Pounds and Shillings		CBN issued Niger ian notes and coins, and withdrew the WACB notes and coins.
Jul. 1, 1962	Pounds and shillings		Legal tender status was changed to reflect Nigeria's Independence.
1968	Pounds and shillings		Notes were changed as a war strategy.
Jan. 1, 1973	Naira and kobo	1/2k, 1k, 5k, 10k, 25k coins and 50k, N1, N5, N10 notes.	Decimal notes and coins were first issued. N1 replaced £1 as the major unit of currency.
Feb 11, 1977	Naira and kobo	N20	(i)Highest denomination of N20 note was first issued. (ii) First currency note bearing the

[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]
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Constructed from: 1/ “Naira is the Currency of Nigeria”
2/ “Nigerian Naira”; World Factbook, 2007

The highest denomination of N20 issued in 1977 became necessary as a result of the growth of incomes in the country, the greater preference for cash transactions and the need for convenience. Nigeria introduced the higher denominations of the naira 100, 200, 500 and 1000 currency notes in 1999, 2000, 2001 and 2005 respectively, and on February 28, 2007 new and smaller currency notes of the lower denominations, as well as coins, were introduced to replace the existing ones.

The CBN believed redenomination of the naira would make pricing more efficient and give coins the relative values which had eluded them over the years. For instance, it will ginger the Nigerian citizens to cultivate the habit of using coins, thereby reinforcing the country's on-going currency reforms. Cost and risks associated with large denominations and carrying large physical cash would have been eliminated. It would reduce the cost of printing, distribution and processing of currency. These associated costs and risks could be classified into inflationary, administrative, laws/regulations and psychological.

As an aspiring International Financial Centre and possibly Africa's Financial Hub by 2020, redenomination would have made for easy conversion of the naira to other currencies. Other nationals would convert easily to their currencies when engaging in transactions with Nigerians. Redenomination would discourage currency substitution and address the perception that domestic currency is weak despite its stability (Money watch, 2007)

Redenomination always poses a challenge to the capital market. Reactions/implications on stocks were that of the uncertainty on how the value of stocks would be affected in the Nigerian capital market whether stock prices would benefit immensely from the policy and add value to the stock market or drop significantly. The experience within the short frame was that most investors commenced the process of off-loading their stocks before the suspension by the Government. One obvious implication is that redenomination alters the par value of stocks and results to share reconstruction which would have solved the determination of the par value of stocks in the capital market. In any redenomination exercise, the share capital/mutual fund units are increased or reduced by maintaining the number of shares/subscribed share capital/mutual fund units and the subscription quota in the share capital/mutual fund units.

As the West African union continues the search for a common currency, the redenomination of the Ghanaian cedi has thrown up new challenges, especially for Nigeria as the leading economic force in West Africa. Already, there are indications that Nigeria's currency, the naira, is favoured to be the ECOWAS Common Currency (in case the ECO does not materialize), but given the current rate of exchange between the naira and the dollar, vis-à-vis the Ghanaian cedi and the U.S dollar, and even the Gambian Dalasi and the US dollar, there is need for the naira to buckle down and reposition itself for that role in the West African Sub-Region. After all, when countries form a monetary union, redenomination is usually required and financial data that spans across the change are presented with proper annotation to avoid giving the illusion of astronomical change.

V. SUMMARY AND CONCLUSION

The paper articulated the reasons and conditions under which countries embark on currency redenomination exercises. It found out that the explanations on currency redenomination exercises rest on both political and economic factors such as national/peoples' identity, credibility of national currency, domestic/international developments, nations' sense of pride, monetary sovereignty and psychological effects. Others include inflation level, macroeconomic and fiscal reforms, regional and sub-regional economic interests, government's time horizon, the governing party's ideology, the fractionalization of the government and the legislature, and the degree of social heterogeneity of the particular country. In fact, currency redenomination could be based on economic and political developments within a country or region, with the aim of stabilizing and repositioning a particular economy.

It is not all currency re-denomination exercises that failed. While some succeeded, others failed. Redenomination makes pricing more efficient, promote a more efficient payments system, lead to easy conversion to other currencies, discourage currency substitution and reduce cost of printing currency.

Although inflation wise, the naira may not have degenerated to a level that calls for redenomination, but the Government could still be proactive in repositioning the naira instead of waiting till the country starts experiencing hyper inflation. All said and done, redenomination of the naira on the political and credibility perspectives (even from inflation perspective) remains a policy for future implementation in Nigeria. It will do the country a lot of good as it prepares for the West African Monetary Union come 2015.

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