



## Country Focus

# Currency Redesign: what implication does it have for socio-economic development in Nigeria?

Thirty-nine (39) years after, under the same head of state/president, the federal republic of Nigeria decided to redesign her currency. The issue of currency redesign is by no means new to the global economy; however, given the timing and urgency of the policy, it hasn't been as quiet in Nigeria as it has been in other countries like the USA, UK, and India, which have changed their currencies with both positive and negative effects and a little chaos.

Over 85% of the currency in circulation, according to the Central Bank of Nigeria (CBN), is kept outside the vaults of commercial banks, and the lengthy period between re-designing naira notes which, by best practice, should be done every 5 to 8 years made it necessary to redesign the naira. From N1.46 trillion in December 2015 to N3.23 trillion in September

2022, the amount of money in circulation has more than doubled. According to CBN data, the value of cash held outside banks increased from the N2.54 trillion reported in a similar period of 2021 by 11.07% Year-on-Year (YoY).

The redesign of currency has beneficial and detrimental economic implications. Currency redesigns increase a currency's security by helping nations keep counterfeiting to a minimum and stay one step ahead of threats. Additionally, it is anticipated to boost the economy, lower cash management costs, advance financial inclusion, and improve the government's ability to monitor the money supply. Analysts say redesigning the naira has decreased inflammatory pressure and suppressed insecurities in Nigeria. It will diminish the money stock and, as a result, slow the long-term course of inflation by

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reducing the amount of currency held outside of banks. Interest rate reductions may result from the ensuing deflationary pressure, which will stimulate economic activity in the short to medium term, increase aggregate demand, and improve output growth. Analysts contend that redesigning the naira, which was implemented close to the 2023 general elections, may have lessened the inclination to buy votes.

Conversely, according to international experience, rapid demonetizations might result in large short-term costs, with small enterprises impoverished and vulnerable people likely suffering the most because they are cash-constrained and heavily reliant on daily cash transactions. Existing naira notes being phased out over a short period could make things more difficult for households and businesses, who already face significant financial pressures from prolonged, high inflation, which have recently been exacerbated by external shocks on the price of food and fuel, as well as the severe

floods.

Economically speaking, the redesign of the naira will strengthen financial institutions even more, lessen corruption, and improve banks' performance due to a sharp increase in the use of electronic banking channels, more transactions taking place through bank accounts, and more agents being able to access the government's tax collection system. More agents in the tax net will result in an increase in revenue generation for the Federal Government of Nigeria.

Going forward, there is a need to perhaps begin to scale up to polymer notes that are now better done, harder to forge and probably give a more extended deadline to reduce the immediate shock the urgency of the Naira redesign has caused.

*Note: This article was written before the Supreme Court of Nigeria ruled on the illegality of the currency redesign, on Friday, March 3, 2023. The position expressed in the guest article is not that of AADFI.*

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