



Nigeria's Currency Redesign: An Opinion



Background

Central banks across the world had always used currency redesigning as a tool to control ill-practices that undermine the integrity of their currencies. In Nigeria, the Central Bank of Nigeria (CBN) had redesigned the Naira at various times in the past. This was done in 1968, 1973, 1984 and 2009. One of the major reasons given by the apex bank for the previously redesigning of Naira was to arrest social vices and uphold the integrity of the Nigerian currency. Besides the intermittent introduction of higher denomination currency across those years, 2022 is yet another significant year in which the CBN is deploying this tool.

Money Supply and Currency in Circulation

Reiterating the scope of money supply: as at September 2022, M0 (currency - cash and coins) stood at N3.2 trillion, M1(M0 plus demand deposits and other liquid deposits) stood at N21.2 trillion, and M2 (M1 plus time deposits, short term securities) valued at NGN49.3 trillion.. Out of N3.2 trillion currency in circulation, less than N700 Billion are within the banking system.. By implication, the monetary authority has over N49 trillion in the financial system. and less than 7 percent of this is currency in circulation . The CBN has also stated that only 16.1% of N3.2 trillion total currency in circulation is in the volts of banks.

However, based on the structure of the Nigerian economy and current socio-political realities, it can be safely estimated that 80% of the currency outside the banking system are held in the hands of about 20% of the populace. There are concerns emanating from illegitimate use and storage of Naira outside the banking system, proliferation of Naira among others..

'Currency redesigning is a tool used by many central banks to control ill-practices that undermine the integrity of their currencies'

The CBN is poised to redesign the Naira. Some of the issues that agitate minds include immediate impact of this decision on the already battered exchange rate, effects on inflation rate, potential seigniorage loss and flight to foreign currency effect. Carefully evaluating some of these issues, they are largely short term responses to the announcements by CBN..

The monetary authority controls the inflation using the money supply and by tweaking the interest rate. The CBN has recently tried to curb inflation rate by leveraging on the inverse relationship between the two parameters. The result has however been minimal.. The over NGN2.7 trillion currency in circulation outside the banking system contribute to ineffectiveness of monetary policies. Hence a need to change the situation.

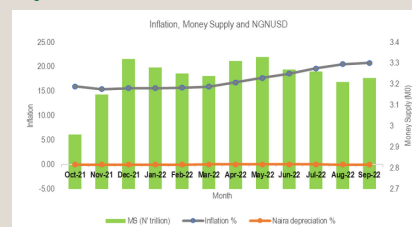
Analyst Opinion

The implementation of this policy is a welcome development.

We expect the rise in exchange rate (immediate Naira depreciation at the parallel market) to abate in the near term as we get close to the cut off date for the usage of the old note. Rise in demand for the new note. as the time draws closer is expected to drive this expectation.

We do not expect a significant seigniorage loss emanating from the Naira redesign as only higher denominations of Naira are being redesigned.

Figure 1:



• Source: Central Bank of Nigeria

While we are of the opinion that Naira redesigning is not likely to worsen inflation in the medium to long term, the immediate effect of flight to foreign currencies rather than moving cash to the bank could moderately raise inflation rate in the immediate. We do not also expect the redesigning of Naira to defray currently high inflation which stood at 20.77% in September, as currency outside the banking system is just about 6%. See the trend of money supply, inflation rate and Naira depreciation in Figure 1 above.

Finally, we expect the current Naira redesigning to enhance its integrity, curb the illicit usage and storage of the Naira in the immediate to short term.

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