



Impact of Naira Redesign Policy on Economic Growth in Nigeria

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Abstract

Naira Redesign affects some Monetary policy variables in the country either, positively or negatively. To this end, this paper attempts to investigate the impact of Naira redesign policy on Economic Growth of Nigeria using primary and secondary data for the periods of 1970 to 2022. Regression analysis was used for data analysis. The findings of the paper indicate that, there is a significant linear relationship between GDP and monetary policy such as exchange rate, and interest rate while controlling for the inflation rate. The study also revealed that naira redesign has failed to achieve its objectives, such as curbing inflation, stopping terrorism financing, curbing inflation, naira hoarding and naira counterfeiting. The study recommends among others, that the policy makers should strictly implement the Naira redesign decision through the central bank on a regular basis in order to have a healthier economy and better Monetary policy.

Key Words: Naira ,Redesign, Policy, Economic Growth

JEL Classification: E02

Contribution to/Originality Knowledge

The study contributed to area of monetary economics by exploring and determining the empirical relationship between key macroeconomics variables such as Naira redesign, exchange rate, interest rate, inflation and economic Growth in Nigeria.

1.0 Introduction

In October 2022, the Central Bank of Nigeria (CBN) announced plans to redesign three out of the eight currency denominations in the country. The apex bank stated that, it will redesign the N200, N500, and N1000 Naira notes. Some of the reasons made for the redesign by the CBN include hoarding of the Naira which has led to a shortage of cash in circulation, an increase in the rate of counterfeiting notes, and that according to best practice, naira redesign should be undertaken every 5 to 8 years. The CBN announced that, it had the support of the government to carry out the proposed plan. On 23 November 2022, President Muhammadu Buhari unveiled the new naira notes. The unveiling raised eyebrows and concerns, especially across social media platforms. Many alluded that the redesign was only “adding colour” to the old notes. The CBN earlier announced that the old note will cease to be a legal tender on January 31, 2023, but later extended by 10 days to February 10, 2022, after calls from different quarters.



However, the extension did not prove to be effective as many Nigerians were left scrambling for cash.

The CBN governor, Godwin Emefiele, also announced that it has created an alternative source for citizens to carry out their transactions to cushion the effect of the naira redesign policy. In the wake of the policy, banking halls were filled with individuals trying to either deposit their old notes or get new notes. The policy no doubt created hardship as people do not have access to new notes, and the Point of Sale (POS) option was not feasible for customers as many charged as high as 50% of the amount to be withdrawn. Also, many Nigerians were left frustrated due to failed transactions with many having their funds trapped for weeks. With the validity of the old notes extended, there are lessons to be learned (Musa et Al., 2023).

According to the Central Bank of Nigeria (CBN), more than 85% of the money in circulation is kept outside the vaults of commercial banks, therefore it was necessary to redesign the naira because it had been so long since the notes had been updated, which is recommended to be done every 5 to 8 years. The amount of money in circulation has more than doubled, rising from N1.46 trillion in December 2015 to N3. 23 trillion in September 2022. Data from the CBN shows an 11.07% increase in the value of cash kept outside of banks from the N2.54 trillion reported in a comparable time of 2021 Year-on-Year (Otitoju et Al., 2023).

The redesign of currency has both advantageous and disadvantageous economic effects. By assisting governments in reducing counterfeiting and being one step ahead of threats, currency redesigns boost a currency's security (Otitoju et Al., 2023). Additionally, it is projected to strengthen financial inclusion, increase economic growth, and cut cash management expenses. It will also make it easier for the government to keep an eye on the money supply. Analysts claim that revamping the naira has reduced tension and quelled fears in Nigeria. By lowering the quantity of money stored outside of banks, it will reduce the money stock and decrease the long-term trend of inflation. The resulting deflationary pressure may lead to interest rate cuts, which will boost economic activity in the short to medium term, boost aggregate demand, and enhance output growth. According to analysts, the redesign of the naira, which was put into effect just before the national elections in 2023, may have made it less attractive to buy votes (Otitoju et Al., 2023)

2.0 Literature Review

2.1 Conceptual

2.1.1 Naira Redesign

Naira redesign is expected to strengthen the economy, reduce expenditure on cash management, promote financial inclusion, and enhance the CBN's visibility of the money supply, CBN (2022).

2.1.2 Naira Redesign policy.

Naira Redesign policy is a Policy that would enable the central bank of Nigeria to take control of the money in circulation, manage inflation, combat counterfeiting, and ransom payment.

The Naira Redesign policy only featured the highest denominations in the country (N1000, N500, and N200) and were launched on 15th December, 2022 to become a legal tender alongside the old notes of same denomination until January 31st, 2023 (Aliemen, 2022). According to (CBN, 2022), the newly redesigned currency retained all its features, except the fact that they have been rebranded to new colors and other new security features which have all been added to make it difficult to counterfeit. Notably, the N200 note now has a red colour, while the N500 and N1000 have green and blue colours respectively and were printed by the Nigerian Security, Printing and Minting Company.

During the launch, CBN gave directives to DMBs in the country to start receiving deposit by customers, while suspending deposit charges to ensure smooth deposit of the old notes. In order to accommodate both withdrawals (new notes) and deposits of old notes based on the directives, DMBs were encouraged to open operations on Saturdays while emphasizing the need for customers to be aware that the old notes still remain as legal tender.

2.1.3 Economic Growth.

Economic Growth is an increase in the amount of goods and services produced per head of the population over a period of time.

According to Wikipedia (2022) Economic Growth is the increase or improvement in the inflation-adjusted market value of the goods and services produced by an economy in a financial year. Statiscians conventionally measure such growth as the per cent rate of increase in the real nominal gross domestic product.

Benefits of the New Naira Redesign Policy

Based on popular opinion, there is no doubt that the new currency design was with good intentions and were well spelt out, although there has been a pocket of some contending views about the policy here and there. However, this segment tends to analyze the benefits of the policy during and after the implementation phase. As designed, the policy according to CBN Governor, was to make the macroeconomic policy of the country very efficient such that, it would lead to a drastic reduction in the rate of inflation in Nigeria, and also, stability of the exchange rate being the major macroeconomic issues faced by the country at the moment. Again, it was anticipated that the policy would increase financial inclusion in the country by reducing the number of the unbanked population particularly those at the rural areas.

No doubt, the policy certainly addressed the issue of financial inclusion and was achieved to a very large extent. This was made possible as a result of the compelling need to use bank accounts during the implementation phase. As observed, many mobile banking Agents, POS Operators sprang up across the country, helping the unbanked population have access to banking services including account opening. With the increase in the number of mobile banking operators, the policy has increased the number of employment in the country across urban and rural areas. In support of this view, (Emejo, 2023) opined that, the number of employment opportunities already created by the policy further demonstrates that rather than



impoverishing Nigerians, the cashless policy has the potential to boost wealth creation across the country. Again, since the beginning of the implementation of the new currency redesign, activities of kidnappers particularly for ransom reduced to an extent, owing to the fact that there were no longer hug cash sums available in circulation to carry out ransom payment. This complements the promise made by the CBN governor during a press briefing that the policy would support the efforts of the security agencies in Nigeria in combating banditry and ransom-taking in the country.

Peter (2023) opined that redesigning of currency has the capability of increasing a currency's security as the policy in many ways, help to check the issues of counterfeiting. Additionally, it helps to boost the economy, reduce cash management costs, promote financial inclusion, and improve the control and monitoring of the money supply in the country. Generally speaking, many researchers and analysts have also opined that redesigning of a nation's currency can decrease inflationary pressure. Hence, it can be concluded that the policy would have had some level of impact on our inflation as the policy usually reduces money in circulation. And, as a result, slow the long-term course of inflation by reducing the amount of currency held outside of banks.

One of the objectives of the policy was to ensure that vote buying which is usually a characteristic of election in Nigeria, is checked. Hence, the policy implementation was moved very close to the general election that was held in Nigeria in March, 2023. From the outcome of the election which clearly shows that there were hardly cases of vote buying across the nation, it can be concluded that the policy achieved that particular stated objective to a large extent. In support, (Peter, 2023) argued that redesigning the naira, which was implemented close to the 2023 general elections, may have lessened the inclination to buy votes. From economic point of view, many Analysts have also written in support of the policy considering the benefits in the areas of long run increase in aggregate demand and economic growth. For instance, (Peter, 2023) is of the view that the naira redesign and cashless policy will strengthen financial institutions and improve banks' performance due to a sharp increase in the use of electronic banking channels, and the fact that more agents would be able to access the government's tax collection system.

2.2 Theoretical

The Keynesian theory makes the Naira redesign a component of monetary policy, which makes a significant impact on GDP and the country's exchange rate, both of which result to economic growth. This is expressed by the straightforward equation:

$$Y = NR + ER$$

Where Y denotes the total output (GDP), while the monetary policy indices are naira redesign (NR) and exchange rate (ER).

Besides the gross domestic product (GDP) and exchange rate, the inflation rate is another crucial macroeconomic variable to be considered. The growth of the Nigerian economy is

mainly dependent on the macroeconomic variables and monetary policy regulation from time to time which is proxied by interest rate (IR) different from the exchange rate. In light of the above, the second equation with inclusion of the above variables can be expressed as:

$$Y = f (IR, ER, IFR)$$

Where Y = Gross Domestic Product (GDP)

IR = Interest Rate

ER = Exchange Rate

IFR = Inflation Rate

2.3 Empirical

Adeniran, Yusuf, and Adeyemi (2023) conducted a study on the impact of Naira Redesign policy on Economic Growth in Nigeria for the periods (1990-2023). The study used secondary data from the Central Bank of Nigeria Statistical Bulletin along with correlation and regression analysis of the ordinary least square (OLS). Findings show that, there is positive and significant relation between Naira Redesign policy and the Economic Growth.

Ailemien, (2023) investigates the effect of currency redesign policy implementation on industrial performance in Nigeria. They adopted survey research design using Google form and computer Aided Personal Interviewing (CAP) tool for data collection. The study reveal that the currency has negative short term effect on industrial performance. The study recommends the need to make Nigerian monetary policy implementation more industrially effective and friendly in the future.

Ige, (2023) examines the effect of Naira Redisign on Economic Growth in Nigeria for the periods (2012-2023). The study used secondary data collected from CBN. The study revealed that there is 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.

Roger, and Ameh (2023) examined the impact of currency redesign on monetary policy of Nigeria for the periods (2015-2023). The study used secondary data collected from CBN. The findings revealed that the policy rids the economy of a lot of black money, there by helping it improve the healthy of the monetary system and enables the regulators to monitor the flow of funds in the country. The study recommend that 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.



3.0 Methodology

This study adopted a quantitative research design. Primary and secondary data were collected. The primary data was obtained through administration of self-developed questionnaire, while the secondary data was extracted from World Bank publications (data.worldbank.org) spanning from 1970 to 2022 based on data availability for the study variables and the purposive sampling technique was explored. The dependent variable is GDP proxied for Nigeria economy, independent variables are exchange rate and interest rate (monetary policy) while inflation is the control variable.

3.1 Model Specification

The empirical models for this study is written as follows:

$$GDP = F (IR, ER, IFR)$$

$$NR = f (NR, STF, CI, NH, CT)$$

The regression model predicts a dependent variable (GDP) with one or more independent variables (IR and ER while IFR is the control variable). It examines the impact of the predictor variables on a response variable. The response variable in a regression model is expected to be a continuous scale (ratio or interval) while the predictor variables can either be continuous or categorical (nominal or ordinal). Mathematically, the regression model for this study is written as:

$$GDP_{(t)} = \beta_0 + \beta_1 IR_{(t)} + \beta_2 ER_{(t)} + \beta_3 IFR_{(t)} + \varepsilon_{(t)}$$

Where β_0 is the intercept or constant term, β_1 to β_3 are the coefficient estimate of the predictor variables, $\varepsilon(t)$ is the stochastic error term that takes care of the unaccounted factors and t is the period in year.

$$NR_{(t)} = \beta_0 + \beta_1 NR_{(t)} + \beta_2 STF_{(t)} + \beta_3 CI_{(t)} + \beta_4 NH + \beta_5 CT_{(t)} + \varepsilon_{(t)}$$

Where β_0 is the intercept or constant term, β_1 to β_5 are the coefficient estimate of the predictor variables, $\varepsilon(t)$ is the stochastic error term that takes care of the unaccounted factors and t is the period in year.

3.1.1 Result

Table 1 show that mean of the Nigeria GDP is about 174 Billion USD with variability of about 178 Billion USD during the period under study. The Nigeria exchange rate on the average is about 92 Naira per Dollar with variability of about 122 Naira per dollar during the period under review. The Nigeria interest rate on average is about -1.2% with variability of about 15% which clearly indicate a poor performance in the monetary policy of the country. Meanwhile, the

Nigeria inflation rate on the average is about 19% with variability of about 17% during the period under review.

Table 1: Summary statistics

	GDP	Exchange rate	Interest rate	Inflation
Mean	173.5661	91.6532	-1.2256	19.1851
Std. Dev.	178.2683	121.5478	14.8512	17.8921
N	53	53	53	53

Table 2: Summary of Multiple Linear Regression Analysis

GDP	Coefficient	Std. Error	t-statistic	Prob.	VIF
Constant	0.4571	0.1491	3.0671***	0.0000	
Exchange rate	1.1511	0.1321	8.7191**	0.0000	1.1579
Interest rate	0.3721	0.1121	3.3211**	0.0001	1.3323
Inflation rate	-1.1461	0.1231	-9.3171*	0.0000	
R-squared	0.7543				
Adjusted R-squared	0.7132				
Prob(F-statistic)	0.0000				

Table 2 shows that the regression model can be fitted as:

$$GDP_{(t)} = 0.4571 + 1.1511ER_{(t)} + 0.3721IR_{(t)} - 0.3721IFR_{(t)}$$

The regression model shows that for 1% increase in Nigeria interest rate, GDP will increase by about 0.37 Billion USD. Similarly, for 1 Naira per dollar increase in Nigeria exchange rate, GDP will rise by 1.15 Billion USD while for 1% increase in the Nigeria inflation rate, GDP will decrease by 1.15 Billion USD. Also, table 2 shows that the regression model ($p < 0.05$) is well fitted and is statistically significant at 5% level and this means that there is a significant linear relationship between GDP and monetary policy indicators such as exchange rate, interest rate and controlling for inflation rate. The coefficient of determination R-squared = 0.75 which implies that 75% variation in GDP can be explained by exchange rate, interest rate and inflation rate while the remaining 25% can be attributed to other factors not included in the model. Since the regression model is significant and the R-squared is relatively high, this suggest that the model is a good fit to the data and it is very suitable for future prediction of Nigeria GDP.

More so, the regression model also show that the coefficient of exchange rate and interest rate have positive and significant impact on Nigeria GDP while the coefficient of the inflation rate has negative and significant impact on Nigeria GDP.

Table 3 shows that the regression model can be fitted as:

$$NR_{(t)} = 0.3721 + 0.9111STF_{(t)} + 0.7251CI_{(t)} + 0.2841NH + 0.1729NCT_{(t)}$$



Table 3 shows that all the independent variables have negative coefficients that is significantly related to naira redesign at 0.05 level of significance. This implies that naira redesign has failed to achieve its objectives, such as curbing inflation, stopping terrorism financing, curbing inflation, naira hoarding and naira counterfeiting.

Also, table 3 shows that the regression model ($p < 0.05$) is well fitted as regression model is statistically significant at 5% level and this means that there is a significant linear relationship between response variable and predictor variables. The coefficient of determination R-squared = 0.66 which implies that 66% variation in NR can be explained by STF, CI, NH and NCT while the remaining 34% can be attributed to other factors not included in the model. Since the regression model is significant and the R-squared is relatively high, this suggest that the model is a good fit to the data and it is very suitable for future prediction of Naira redesign.

Table 3 Summary of Multiple Linear Regression Analysis

GDP	Coefficient	Std. Error	t-statistic	Prob.
Constant	-0.3721	0.1121	-3.3211	0.0000
Stop terrorism financing (STF)	-0.9111	0.1461	-6.2391	0.0000
Curb inflation (CI)	-0.7251	0.1511	-4.8011	0.0000
Naira Hoarding (NH)	-0.2841	0.0531	-5.3851	0.0000
Naira Counterfeiting (NCT)	-0.1729	1.13143	-0.1528	0.0492
Adjusted R-squared	0.6562			
Prob(F-statistic)	0.0000			

4.0 Discussion of Findings

The study revealed a significant linear relationship between GDP and monetary policy such as exchange rate, and interest rate while controlling for the inflation rate. It also shows that the regression model ($p < 0.05$) is well fitted and statistically significant at 5% level and this means that there is a significant linear relationship between GDP and monetary policy indicators such as exchange rate, interest rate while controlling for inflation rate. More so, the regression model also show that the coefficient of exchange rate and interest rate have positive and significant impact on Nigeria GDP while the coefficient of the inflation rate has negative and significant impact on Nigeria GDP.

The study also revealed that naira redesign has failed to achieve its objectives, such as curbing inflation, stopping terrorism financing, curbing inflation, naira hoarding and naira counterfeiting.

5.0 Conclusion and Policy Recommendations

5.1 Conclusion

Naira redesign has been part of Nigeria's history. But, the 2022/2023 Naira redesign seems to be the most memorable in the history of Nigeria, basically because it ushered in an era where Naira was to purchase Naira. This was due to inability to access physical cash even when there is money in one's bank account.



Though, the Naira redesign came with a lot of prospect which was declared by the CBN, it failed to achieve any of these prospect. Rather, it disrupted the social and economic activities in the country. Obviously, the CBN as well as the federal government failed to envisage the challenges that will face the transition into a cashless economy and thus, did not put in place any measure to mitigate these challenges.

The study examined the impact of Naira redesign policy on the economic Growth of Nigeria. From the literature 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. In addition, studies contributed that Naira redesign policy can minimize the influence of money on the country's electoral process by discouraging vote buying and inducing of electoral officers and this can lead to economic Growth.

5.2 Policy Recommendations

Based on the findings of this study, the following recommendations were made.

The government should strictly implement the Naira redesign decision through the Nigerian central bank on a regular basis in order to have a healthier economy and better monetary policy. This will prevent the counterfeiting of Naira notes, withdraw about 80% of Naira currency held outside of commercial banks, and lower the inflation rate that has contributed to Nigeria's recession.

Old and new Naira notes should be allowed to coexist until old Naira notes completely fissile out through bank deposit to the CBN.

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