



Assessing the impact of currency redenomination: An appraisal of the bank of Sierra Leone's redenomination proposal

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Abstract

On Wednesday 11th August 2021, the Bank of Sierra Leone (BSL) through its governor issued its proposal to redenominate the Leone (Le) by dropping three zeros from the currency and issuing more coin denominations with a view to ensuring macroeconomic stability, increase credibility of the Le and efficient payment system. The announcement took many by surprise and posed a lot of debate among Sierra Leoneans and non-Sierra Leoneans within and outside the country. While some are of the view that the BSL deserves commendation for the bold step, others are condemning the entire proposal base on political views. This paper tries to look at the implications of the proposed Le redenomination scheme in the light of its objectives, by issuing 115 Questionnaires to people who have vast knowledge on currency redenomination. Data collected was analysed using direct percentage method. It is observed that the BSL can use redenomination to reduce inflation and to add value to the Le which will boost economic growth, but majority of our respondents believe that the Le redenomination policy is based on political grounds. The paper recommends therefore that the policy be implemented and the BSL should adopt other economic recovery measures to help boost economic growth and the bank governor and his staff should act apolitical if the goal for redenominating the Le is to fight inflation and boost economic growth.

Keywords: Redenomination, currency, Leone, inflation, apolitical, economic growth

1. Introduction

The idea of currency redenomination is a public policy that is always controlled by the Central Bank of a country. Among other motives for redenominating a currency, it is also geared towards making the local currency gains credibility and instils confidence on investors and other potential investors who may want to do business in such countries. Currency redenomination is nothing new, as there are so many countries that have practiced it and most have succeeded. Redenomination is the removal of certain digits (Usually zeros) from a currency thereby making it smaller (in size) than it previously was, and it is done during period of severe inflation. For instance, Zimbabwe in 2009, Greece in 1944, Republic of Zaire (Congo) in 1993, Peru in 1991, Turkey in 2005, Argentina in 1992, Ghana 2007, Angola in 1999, Venezuela in 2018 etc. Reducing more zeros from a currency will make it look smaller in size but higher in value and adds prestige to the local currency. This has been proved by Zidek and Chribik (2015)^[9]. When a currency is redenominated, zeros are knocked off and sometimes the name of the currency is changed after the redenomination process. For instance, when Ghana redenominated its currency in 2007, three zeros were removed from the currency and its name changed from Cedi (¢) to Ghana Cedi (GH¢).

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Proponents of Currency redenomination argued that, when a currency is redenominated, it enhances economic growth. The main reason behind redenomination is to curb inflation. Other reasons may include, to adjust exchange rate, political reasons and for psychological reasons. In the works of Mosley (2005) ^[3] they found that in Romania and Turkey, redenomination is important in providing psychological influence both nationally and internationally. For instance, if a particular product is bought at Le 50,000 before redenomination, this same product will now be bought at Le 50 after redenomination (if three zeros are knocked off). It is clear therefor that the problem of inflation has been addressed and the minds of the citizens are psychologically made up.

Also, if the exchange rate of the Leone to the US Dollar before redenomination is at Le 100,000 = \$1, this rate will automatically adjust itself to Le 100 = \$1 immediately after redenomination, assuming the exchange rate in question is in a floating regime.

During periods of hyperinflation, the value of the currency is lost, low purchasing power, and one of the key ways to help regain its value is by redenomination. By inflation, the price of goods and services is always in very high amount. Transactions become uncomfortable when larger quantity of money is required. Even some business people find it difficult to count/calculate very large denominations. To curb this situation, the central bank will decide to redenominate its currency.

Mosley (2005) ^[3] stated that, the reasons for which some countries decide to redenominate their currency are a combination of both economic and political factors such as inflation, government concerns about credibility and the effect of currency on national identity. It is believed that the redenomination process is also related to other political variables such as government interest, the governing party's ideology, the fractionalization of government and legislature and the degree of social heterogeneity.

2. Research Objectives

The key objective of this study is to assess the potential impact of redenomination of the Leone (Le) as a way of mitigating inflation in Sierra Leone.

The specific objectives are

1. To assess whether the proposed redenomination will mitigate the rate of inflation in Sierra Leone
2. To assert if redenomination of the Leone will improve the value of the currency and enhance economic growth
3. To know if redenomination of the Leone is done base on political grounds

3. Research Questions

1. Will redenomination mitigate the rate of inflation in Sierra Leone?
2. Will redenomination of the Leone improve the value of the currency and enhance economic growth?
3. Is the proposed redenomination process done base on political grounds?

4. Review of Related Literature

When hyper-inflation becomes the order of the day in any economy, economists see redenomination as the final solution to restore the economy. When this is well implemented, backed by export promotion strategies and private sector improvement, the local currency will appreciate as exchange rate is also impacted by the policy.

When a currency is redenominated, the burden on people carrying plenty notes to do transactions is reduced, as they only need small quantity of money with them to do such transaction. When this is achieved, psychologically, people will see the currency has increased in value. Ofeimun, (2007) ^[5], disclosed that the benefits of redenomination are tremendous as it leads to a stronger value of the currency which also leads to a fall in price since raw materials and machinery becomes cheaper. Pambudi, Juanda and Priyarsono (2014) ^[6], revealed that redenomination is the simplification of normal values of a currency by reducing digits (zeros) without reducing the real value of the economy. Nwaoba (2010) ^[4], encouraged countries and their governments to use redenomination to reassert their monetary sovereignty as money enhances or diminishes the legitimacy of government. He defined redenomination as a process where a new unit of money replaces the old unit with a certain ratio. In 1976, Smuelson, defined inflation as a period of persistent rise in the general prices of goods and services, which means you need plenty of money to buy few things that you need. Soludo (2007) ^[8], made known that redenomination can be achieved by removing zeros from a currency with the aim of correcting the macroeconomic misalignment and enhancing the credibility of the local currency.

When redenomination is done, the local currency gain prestige, value and ease transaction. Ifunanya *et al.* (2021) ^[2], revealed that redenomination restore sanity, credibility and facilitate transactions with smaller denominations that have increased value, as it lowers inflationary pressure. They also brought forward some benefits of the redenomination process, as redenomination makes pricing more efficient and makes book keeping and accounting easy. Currency redenomination will make a consumer carry along small quantity of money but with high value relative to the pre-redenomination days. When Ghana finally redenominates its currency in 2007, news posted on the Ministry of Finance's website in Ghana in 2008 showed that Ghana's inflation rate dropped from 40% to 13.2% just one year after redenomination. It also revealed that exchange rate of the Ghanaian Cedi was stable relative to other major world currencies.

The idea of currency redenomination is always a dream policy as it is effective and successful in some countries and not in some countries. In 2017, Gwin and Putuon in their study of why redenomination is effective in one country and not in another using panel data from World Bank to estimate the impact of redenomination on macroeconomic variables which includes: inflation, real gross domestic product, per-capita income and real currency exchange. They revealed that redenomination significantly decrease estimated inflation rate and increase estimated real GDP per capita and that redenomination has no significant impact on exchange rate. They disclosed that effectiveness of redenomination depends on government effectiveness and political stability.

Truth be told, the Sierra Leone economy has not been doing well for the past years under the current administration due to certain factors. Some amongst these factors are: the drop in the level of exports, high increase in the level of imports, current administration focusing on fighting politicians from the past administration, lack of foreign investors entering the country and the worst pandemic (Covid-19) hitting the country and put a halt on most economic and social activities etc.

Our imports far exceed our exports for the past years and this has a negative implication on any economy. An economy should always work towards increasing its exports more than its imports if economic growth is to be achieved. Whenever a country has more exports than imports, it leads to surplus in its balance of payment, but it will record a deficit in its balance of payment if it is import dependent; that is, it is importing more than it is exporting, as in the case of Sierra Leone in recent years.

5. Methodology

Survey design is adopted in this study. It allows the researchers to get the required data from its target respondents. The questionnaire developed was well structured and administered to people who know about the policy of redenomination to help choose their responses. Questionnaires were administered to Ministries, Departments and Agencies (MDAs), Universities, Schools, Banks, Microfinances, Business places and Stakeholders.

A purposive random sampling technique was used in getting our respondents. Purposive sampling is important as it helps in identifying just the right respondents that will provide accurate information for the study. For easy understanding, the study introduced direct percentage method of data analysis. The study selected 115 respondents and were all given questionnaires. The order of the questionnaires distribution is given on the following table.

Table 1

Institution	Number of Respondents
MDAs	15
Universities	30
Schools	10
Banks	22
Microfinances	10
Business places	20
Stakeholders	8
Total	115

6. Analysis and Discussion of Results

Fortunately, all the 115 questionnaires administered were

completed and returned by the respondents.

Since the ultimate aim of redenomination is to check the rate of inflation, our first question was:

Will redenomination of the Leone reduce the rate of inflation in Sierra Leone?

Table 2

Option	Frequency	Percentage
Yes	85	73.9
No	30	26.1
Total	115	100

From the table above, it is observed that 85 of our respondents (74%) agreed that if the Leone is redenominated, it will drastically help reduce inflationary pressure in Sierra Leone, while 30 (26%) of our respondents did not agree that redenomination of the Leone is a solution to curtail inflation rate in Sierra Leone.

Our second question in relation to our research objectives was:

Will redenomination of the Leone improve the value of the currency and enhance economic growth?

Table 3

Option	Frequency	Percentage
Yes	80	69.6
No	35	30.4
Total	115	100

It can be seen from the table above that 80 (70%) of our respondents do believe that if the currency is redenominated, it will improve the value of the Leone and hence, enhance economic growth; while 30% of our respondents believe that redenomination of the Leone will neither improve the Leone nor enhance economic growth.

Our final research question in line with our objectives was:

Is the proposed redenomination process done base on political grounds?

Table 4

Option	Frequency	Percentage
Yes	95	82.6
No	20	17.4
Total	115	100

From the table above, 95 (83%) of our respondents believe that the proposed redenomination of the Leone by the bank governor is done base on political grounds; while only 20 (17%) of our respondents believe that the proposed redenomination process is not done base on political grounds. It is observed that all our research questions were all answered in the affirmative.

From the first question, 74% of our respondents believe that redenomination of the Leone will help control inflation while the remaining 26% believe otherwise. This question is therefore answered in the positive way, and we will conclude

therefore that, the redenomination policy be implemented. The second question is also answered in the affirmative, as 70% of our respondents believe that if the Leone is redenominated, it will improve the value of the Leone and in return enhance economic growth, while 30% of our respondents does not believe that redenomination of the Leone will improve the value of the Leone and enhance economic growth. This question is also answered in the positive way, and we conclude that the redenomination of the Leone be done.

Our final question is also answered in the positive way and

bears the highest percentage as far as our study is concerned. Here, 83% of our respondents believe that the redenomination policy announced by the bank governor is mainly based on political grounds, trying to fight the past administration for hoarding of the currency during their days in governance; while 17% of our respondents do not see it that way.

In general, people believe that the current administration is trying to retrieve all the monies the past administration has kept thereby making them dormant.



Source: www.google.com

Fig 1: Sierra Leonean leaones (Le) note

7. Recommendations

1. The bank governor should try to implement the redenomination policy so as to help reduce the rate of inflation in Sierra Leone, proper education and advertisement of the policy be done throughout the country.
2. The central bank should act independently and try to refrain from all political links if the policy is to be successful. If the bank governor is acting political, the proposed redenomination policy will not be achieved, so it is advised that the bank governor and his entire team act apolitical.
3. The redenomination policy should also be backed by some economic recovery reforms; otherwise the policy will not be active and efficient. Support should be given to enterprises, employment for youths, export promotion, private sector development and creating an enabling environment that attracts more investors into the country.

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