



**“The Reasons for, and Effect[s] of,
Redenomination of the Leone on
Sierra Leone’s Post-COVID-19
Economy”**

Speech Delivered by Professor Kelfala M.
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Honourable Vice President of the Republic;
Your Lordship, The Chief Justice;
Honourable Justices and Magistrates of the Judicature;
Honourable Attorney General and Minister of Justice;
The Commissioner, Anti-Corruption Commission
The Solicitor General;
Madam President, Sierra Leone Bar Association;
Ministers of Government;
Members of Parliament;
Learned Members of the Sierra Leone Bar Association:
Distinguished Ladies and Gentlemen,

Good afternoon.

I bring you greetings from the Management, Board, and Staff of the Bank of Sierra Leone. I also want to commend the students who have organized this symposium on the topic that is so vital to this nation's economic future.

I am delighted to be here this afternoon to talk to this most learned group of ladies and gentlemen about the Bank of Sierra Leone's decision to redenominate the nation's currency (the Leone), place a new family of currency notes and coins into circulation as legal tender, and eventually call in the existing currency at a date that will be announced pursuant to Section 27(4) of the Bank of Sierra Leone Act, 2019. Obviously, redenomination is bound to create genuine concern and confusion. Therefore, the Bank of Sierra Leone recognises its duty to fully sensitise the people of this country about the new family of notes and coins in the redenominated currency before they are introduced.

Distinguished Ladies and Gentlemen, the leadership of the Bank started this sensitization drive immediately after my August 11, 2021 announcement of the redenomination programme. To date, we have held informational meetings with key stakeholders, including the leadership of the Sierra Leone Bar Association, where the rationale for redenomination and a general blueprint of how it will be implemented were discussed. We will soon embark on a nationwide public education campaign to fully educate the average Sierra Leonean about the redenomination of the currency.

I. What is Redenomination?

Simply put, redenomination is a recalibration of a nation's currency by dividing it by a constant. In our case, that constant is 1,000, which is equivalent to removing three zeroes from the currency. To keep the real value of assets that are denominated in the Old Leone constant, all prices that are denominated in it shall be similarly divided by 1,000 in order to get their equivalence in the New Leone.

There will be a transition period of not less than 90 days during which the two currencies shall be legal tender. During that period, the prices of goods and services shall be displayed in both the New and Old Leones. Thereafter, the Old Leone shall cease to be legal tender and all prices shall then be set in the New Leone.

Also, on the day the New Leones come into circulation, all contracts, debts, and other agreements that are denominated in Old Leones shall be automatically converted into New Leones. During the parallel run period, deposits and payments can be made in Old Leones but withdrawals and change shall only be made in New Leones. At the end of the parallel run period, all Old Leones in the hands of the public shall cease to be legal tender and therefore not usable in transactions in this country.

It must be noted that this is not the first time the currency of Sierra Leone has been redenominated. The first was when the British West African Pound, which was legal tender in the British West African colonies (Gambia, Ghana, Nigeria, and Sierra Leone), was converted into Leones and cents in 1964. Moving the currency from the imperial system to a decimal system required deflating the face value of the notes and coins, as well as the prices of commodities, by 1.2. Consequently, the six-pence coin was replaced the 5-cents coin and the ten-cent coin replaced the shilling (which was equivalent to 12 pennies). Similarly, the ten-shilling note (which equaled 120 pennies) became the 1-leone note, which was now equal to 100 cents. Finally, the one-pound note (which equaled 240 pennies) became the two-Leone note, which was now equal to 200 cents.

In the run-up to that exercise, certain unscrupulous politicians sought to scare the people of this country by claiming that being given 10 cents in exchange for a shilling meant that the currency changeover will rob Sierra Leoneans of two pennies per shilling, twenty pennies per ten-shilling note, and forty pennies per pound. It took much public sensitization and education to blunt the impact of that shameless propaganda. The bottom line is that the currency changeover did not make anyone worse off.

Similar tactics are now being employed to scare Sierra Leoneans about our instant redenomination programme. The lie now is that people are going to be impoverished as a result of redenomination because they will receive 1,000 New Leones for every million Old Leone they exchange. As such, they mischievously claim, the transaction will involve a theft of 999,000 Leones from them.

Of course, it is true that, after redenomination, one million Old Leones will now be equal to one thousand New Leones. However, prices of all goods and services will also be deflated by 1,000. Hence, if, for example, a person were to purchase 100 litres of petrol using the Old Leones, she would pay one million Old Leones. After redenomination, the price of petrol will be ten New Leones per litre. Thus, her one thousand New Leones would similarly purchase 100 litres of fuel. In short, the New Leone will have the same value as the Old Leone. To emphasize this point, the Bank will use "New Money, Same Value" as its slogan for its public sensitisation and education campaign.

II. Why redenominate Now?

Madam President, Distinguished Ladies and Gentlemen, the current currency regime imposes several significant deadweight losses on the economy. Firstly, the huge quantities of banknotes needed to conduct simple transactions imposes huge transaction costs on economic activity. Additionally, the costs borne by economic agents (households, businesses, and government agencies) in counting and storing large volumes of cash is also not trivial. These costs are compounded by the increasing costs of bookkeeping, the strain on the payment system, as evidenced by our crowded banking halls, long lines at Automatic Teller Machines (ATMs), and the general risk of theft. Moreover, the inconvenience customers will incur from counting huge stacks of currency when they withdraw cash from their bank accounts, as well as the high possibility that doing so will attract the attention of thieves lurking around in banking halls, has created tremendous incentives for unscrupulous bank tellers to pilfer notes out of sealed bundles, thereby opening the financial system to the possibility of losing its most important asset—which is the public's trust.

Businesses have also been taking advantage of the public when they round-off prices to the next thousand Leones. For example, when a consumer presents 9,000 Leones to purchase something priced at 8,500 Leones, merchants essentially force customers to pay 9,000 Leones by claiming to have no change. The cumulative effect of this has been tremendous "theft" by businesses—just because the currency is so debased that prices are set in the thousands of it. By minting and circulating a whole new family of coins, in an adequate quantity, redenomination will bring much needed respite to the public from such scams.

The Bank of Sierra Leone is not immune from these costs either. As the increasing debasement of the Leone creates the need for more currency notes, the Bank must allocate increasingly more of its meagre foreign exchange reserves to printing more notes whose face values are increasingly lower than the cost of printing them. In other words, whereas many central banks profit from their currency operations (in the form of *seigniorage*, which is the difference between the face value of a currency note and the cost of printing it), the Bank of Sierra Leone has been incurring huge losses in its currency operations. Thus, the current currency regime is imposing negative *seigniorage* on it. Redenomination will reduce the quantity of notes the Bank shall be printing going forward, thereby reducing the costs involved. Hopefully, this should help increase the *seigniorage* it receives.

Madam President, Distinguished Ladies and Gentlemen, we all undoubtedly remember the currency crisis this country endured last year, which was caused by an unprecedented hoarding of Leones. What most people never knew was that the hoarding almost precipitated a financial crisis and a possible collapse of the financial system.

The Bank of Sierra Leone's initial response to the crisis was to order huge quantities of currency notes (at even larger rates of negative *seigniorage* due to increased printing

and transportation costs). Our thinking then was that because the hoarders do not have unlimited storage capacity, they will eventually run out of storage space and end the foolishness. However, as soon as the new notes were circulated, they too were hoarded.

So dire was the situation that, starting June 2020, I had to authorize a currency-swap, whereby the Bank swapped United States dollars for Leones. Operationally, commercial banks would inform their customers that the Bank of Sierra Leone had dollars for sale to individuals and firms in exchange for Leone deposits into their commercial bank accounts. The Leone deposits were then redeposited in the Bank of Sierra Leone in exchange for US dollars, at the very favourable Bank of Sierra Leone rate.

Immediately after this programme was initiated, the Law of Unintended Consequences set in. The Bank soon realized that individuals and businesses were depositing Leones into their commercial bank accounts and selling them for dollars, and then withdrawing even larger amounts of Leones from their accounts and again swapping them for dollars. In short, the Cash-Swap soon created an incentive for even more hoarding, thus imposing an even larger cost on the Bank and a huger risk of financial system collapse.

When, cumulatively, the Bank had sold sixty-eight million dollars (USD 68 million) on the Leone-dollar swap without easing the cash shortage, I became convinced that redenominating the Leone (something I had intended to do during my first year as Governor, but decided otherwise because our vaults were full to the brim at the time) was the only cost-effective solution to the problem. Accordingly, on 11th August 2021, I announced to the nation that a “new family of currency notes and coins, which shall be called the New Leone, will become legal tender in Sierra Leone in the near future and that the current currency in circulation (the Old Leone) will cease to be legal tender after a period when both currencies shall run concurrently as legal tender.”

Madam President, Distinguished Ladies and Gentlemen, although much time has lapse since my announcement, I want to be quite clear, as clear as I can be, that redenomination will commence soon, following a nationwide sensitization of the public. In this regard, the Bank will soon commence a nationwide sensitization drive, titled “Operation New Money, Same Value”, across the length and breadth of this country. You will soon be thrilled to a very danceable “New Money, Same Value” tune being produced by a collection of some of the country’s greatest musical artists.

III. The Expected Impact of Redenomination on the Economy

Distinguished Ladies and Gentlemen, if I were in your shoes, I would be asking myself why we should redenominate when, as already stated, the New Leone will have the same real value as the Old Leone. Understanding the role money plays in the economy, on the one hand, and how economic agents view money, on the other hand, will help us answer that question.

Firstly, money by itself has no intrinsic value, except that it serves as a medium of exchange (something people accept in exchange for something of value). However, this characteristic is not unique to money because we could just engage in barter transactions

and totally do away with money. Additionally, we could store our wealth in commodities. The reason humans created money is the fact that it is the most efficient medium of exchange available. For instance, for trade to occur under a barter system, the seller of a commodity would have to find a buyer that has what the seller wants. In economics, this is called the double-coincidence of wants, without which barter trade cannot occur.

Because of the tremendous costs involved in finding others who need what we have and have what we need, a barter system discourages specialization, which is a key catalyst in economic progress. For example, were this a barter economy, we would not be having this conference because any fool that chooses to specialize in the law would die from starvation.

Perhaps the veil women wear to wed is the most appropriate analogy for money. Without it, the wedding ceremony can go on, but not as pleasurably as it would be if the bride wore a veil. This notwithstanding, the intrinsic qualities of the bride are not affected by the veil. The woman the groom knew before the veil will be the same woman he will have after it. However, if the veil becomes too thick that the bride's vision is impaired or too heavy for her to carry comfortably, she might tumble and fall, thus making a mess of the ceremony. The remedy in such a situation would be to lighten the load the bride must carry by reducing the thickness of the veil and making it more opaque.

Similarly, a heavily debased currency places a heavy and blinding veil on the economy in the sense that it burdens it with so much transaction costs that money becomes a less efficient medium of exchange. This causes economic agents to engage in currency substitution, which has been the bane of this economy for a long time.

Redenomination makes the economy's veil lighter and more user friendly. Therefore, although the number of zeroes on a currency should have no impact on its real value if the price level is adjusted accordingly, the efficiency redenomination brings to economic activities typically produces a positive output shock, which leads to economic growth and lower prices.

There is also the problem of money illusion, which is simply the notion that people are more interested in the nominal quantity of money than what it can buy. For example, workers see themselves as being better off when their money wages rise in the same proportion as the prices of the goods and services they purchase. On the contrary, they see themselves as being worse off if their money wages and the prices of the things they buy fall in the same proportion. It does not matter to them that their real wage (the quantity of goods and services the money wage can buy) remains unchanged in either scenario.

Thus, because of money illusion, a worker who used to earn 1 million Old Leones might feel worse off being paid 1 thousand New Leones. This feeling would convince her to reduce the quantity of goods she purchases and to bargain with sellers for lower prices before making purchases. The end result of the reduction in aggregate demand and pressure on sellers to keep prices in check after redenomination will be a downward pressure on the inflation rate. In sum, the output growth due to the increasing efficiency of the redenominated currency as a medium of exchange and the dampening of

aggregate demand due to money illusion should result in economic growth and a lower rate of inflation.

What about the impact of redenomination on the exchange rate? A well-known theorem in international economics, the Purchasing Power Parity doctrine, holds that the rate at which a country's currency depreciates against those of its trading partners is directly related to the difference between its inflation rate and those of its trading partners. Therefore, if, due to money illusion, lower inflation results from redenomination, the New Leone should appreciate against other currencies, all other things being equal.

Redenomination also boosts the confidence of citizens in their currency and, by extension, their economy. The increased confidence in the economy would cause economic agents to increase their savings and investment, which should promote economic growth.

Additionally, redenomination will also lead to the dropping of zeroes from the exchange rate. For example, if the current exchange rate were 10,000 Old Leones to the US dollar, it would automatically drop to 10 New Leones per dollar. Those foreign investors who view the number of zeroes attached to a currency's exchange rate as an index of economic strength, will now be likely to conclude that the country's economy is much stronger than it is. This should positively impact the flow of foreign investment in its favour, from which economic growth should result.

Perhaps the case of Ghana is the best illustration of how redenomination can positively impact an economy. Unlike Sierra Leone, which is dropping three zeroes, Ghana chopped off four zeroes from its currency, thereby setting it at par with the US dollar. Although Ghana's exchange rate today is 6.5 cedis per dollar, which is really 65,000 old cedis per dollar, the Ghana cedi is judged as stronger than the Leone even though the Leone-dollar exchange rate is almost one-sixth of the old cedi-dollar rate. This has enhanced foreign capital flows into Ghana, which has helped grow her economy.

Finally, the reintroduction of coins will help to promote the use of vending machines and other coin-operated machines. These too will lead to increased productivity.

IV. Preconditions for Successful Redenomination

It must be noted, however, that for redenomination to maximize these positive effects, certain preconditions must be met and maintained. Firstly, fiscal discipline must be maintained in order to engender price and exchange rate stability. Moreover, economic agents must perceive the central bank as a credible institution that is committed to macroeconomic stability. The Bank of Sierra Leone is committed to ensuring that these conditions are fulfilled.

In addition to the importance of macroeconomic stability and central bank integrity in the maximization of the gains from redenomination, Nobel Laureate, Douglas C. North, demonstrated in his lifelong research that institutions matter in the quest for long-run economic growth. North defined "institution" as "humanly devised constraints that structure political, economic and social interactions"—the constraints being the formal

rules (constitutions, statutes, and property rights) and informal restraints (such as customs, traditions, codes of conduct, taboos, and social sanctions) that help to bring and maintain order and safety in an economy. Institutional arrangements that create efficient markets with low transaction costs tend to promote investment, technical progress, and economic growth. On the other hand, institutional arrangements that promote fraud, theft, corruption, weak contract enforcement, weak property rights protection, and other socially detrimental behaviours raise transaction costs, thereby posing huge barriers to economic progress. North therefore argued that promoting the former type of institutions and controlling the latter type should be the central function of growth-enhancing economic and political institutions. When this is achieved, entrepreneurs will have the confidence to invest into new products and technologies, thereby leading to economic growth and improved living standards.

Professor Lisa D. Cook, President Biden's recent nominee to the Board of Governors of the US central bank, the Federal Reserve System, added to our understanding of the impact of institutions on economic progress with empirical evidence which shows that the degree to which economic and social institutions protect citizens from the threat of violence, thus creating a climate of personal security, has a greater impact on economic growth than previously thought. Personal insecurity, Professor Cook found, tends to depress technological progress, which ultimately retards economic growth and price stability. (Our eleven-year civil war laid this bare for us in Sierra Leone.)

Taking our cue from these analyses, we can conclude that how well our economic and political institutions minimize fraud, corruption, the diminution of property rights (including the right to personal safety), the sanctity of contracts, as well as other socially-detrimental behaviours will determine the magnitude of the positive effects of redenomination on our economy.

Madam President, Distinguished Ladies and Gentlemen, the Sierra Leone Bar Association can help this country maximize the benefits from redenomination by promoting laws and practices that respect the sanctity of contracts, speeding up cases in the judicial system, using the legal system to reduce corruption in the society, and enhancing the ability of the legal system to protect and guarantee property rights, including the right to personal safety. The Bank stands ready to partner with the Bar Association in such an endeavour.

Distinguished Ladies and Gentlemen, for your kind attention, and my hopeful conviction that my remarks to you this afternoon will help spur the legal fraternity in this country to champion the development and sustenance of growth-enhancing social and political institutions, I thank you.