

DELETING ZEROES FROM NATIONAL CURRENCY

Investigation and Analysis of Removing Zeroes from Iran's National Currency

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ABSTRACT

Not only money is the means of having economic exchanges, it also leaves influences on the national identity of people and the national authority of governments and therefore it can be used as a tool to strengthen national and political identity of different nations. In other words, the value of national currency can affect the perspectives of people towards their economic situation as well as the national identity of their country. If people always expect the devaluation of their currency, this will be a cause of concern for governmental authorities. Hence, it falls upon the governments to boost people's confidence in their national currency by maintaining its value and thus preventing the phenomenon of "currency replacement", i.e. taking refuge in foreign currencies. This article first attempt to investigate governments' aim behind deleting zeroes from national currencies and then presents the conditions and requirements for this undertaking. Then, it will review the experiences of other countries and the history of removing zeroes from national currencies. Finally, the advantages and disadvantages of removing zeros from national currency will be explored.

Keywords: *Currency, Removing Zeroes from National Currency, Value of National Currency, Rial, Inflation*

1. INTRODUCTION

The value of national currency of each country depends on a myriad of factors among them economic situation of the country in the world, efficiency of the government and securing the costs, political, legal and judicial stability for attracting foreign investments, observing the international law and regulation and being in line with international changes, etc. Devaluation of national currency results in many social and psychological impacts. When national currency is being devalued, people feel a sort of humiliation in relation to other strong currencies. In addition, changes in the value of currency and in its volume, which is the result of such changes, brings about many hygienic impacts.

The phenomenon of "currency replacement" occurs when along with devaluation of national currency, people show a tendency to use foreign currencies for their daily exchange. The most significant use of deleting zeroes in economy is maintaining the value of national currency. Removing zeroes from national currency is more a political measure from the governments rather than an expert and technical one and is considered to be part of the package of economic reforms.

Removing zeroes from national currency is a tool for governments' support of the strength of currency policies. This measure has an important role in boosting public confidence in governments. In democratic regimes, removing zeroes from national currency can play a significant role in re-election of a particular party. In contrast, if people lose their confidence in national currency, they will start using foreign currencies, particularly as they have more prestige, and this leaves enormous economic and psychological pressures on governments. Therefore, the economic policies of governments will be influenced by international financial markets and

foreign central banks will affect the economic policies of the country in question. Therefore, removing zeroes will prevent the penetration of foreign currencies in the economy and the consequences.

2. LITERATURE REVIEW

2.1 The Objectives behind Removing Zeroes from National Currency

There are different reasons behind one country's decision to change the national currency; among them one can mention the following:

1. Obtaining international credit
2. Regaining national identity and national confidence
3. Controlling the currency market
4. Decreasing the inflation pressures
5. Preventing currency replacement with foreign currencies

Investigations indicate that deleting zeroes from national currency can be effective only when

- A. The domain of macro-economy possesses stability
- B. Inflation is on the decline
- C. Currency rate is stable
- D. Government refrains from excessive expenditure
- E. There is great confidence in the society in government's policies

If a government only suffices to remove zeroes from national currency and does not execute comprehensive and sweeping economic reforms, not only the policy of removing zeroes from national currency will not be effective, but also value changes of the currency are doomed to happen soon.

2.2 History and Background of Removing Zeroes from Currencies in the World and in Iran

The solution of removing zeroes from national currencies is usually used in the countries in which the national currency has too many zeroes. Since 1960, in 71 cases developing governments have been forced to remove a number of zeroes from their national currencies.

Removing zeroes from national currencies was first carried out in Germany and after World War II. Under the economic pressures of World War II and the remained damage, this country experienced a huge inflation that forced economic policy-makers of the country to remove zeroes from deutschmark. During the last 50 years, 19 countries have removed zeroes from their national currencies and 10 countries have done this twice. Zeroes have been shed from national currencies 4 times in Argentina, 5 times in former Yugoslavia, 6 times in Brazil, two times in Bolivia 3 times in Ukraine, Russia, Poland and Belgium, and once in Turkey, Island, Korea, and Ghana.

2.2.1 Brazil: Holding the Record of Deleting Zeroes

Brazil suffered from one of the heaviest inflations of the time in 1960s and 1970s in a way that the country's currency was being devalued between 30 to 40 per cent each month. Before that, Brazil's national currency had changed its name twice between 1930 and 1942. In 1967, three zeroes were removed from Brazilian national currency, called Cruzeiro, and the currency was re-named as New Cruzeiro. However, Brazil failed to control the inflation and inflation reached 151 per cent in 1981, during which time Brazil removed three other zeroes from national currency. In 1989, the inflation increased again and reached 1431%, forcing the country to remove zeroes and change the name of the currency. In 1993, when inflation was about 2000%, another 3 zeroes were shed. This time, the government managed to control the inflation. Meanwhile, Brazil is still considered one of the most expensive Latin America's countries. From 1930 to now, 18 zeroes have been removed from Brazilian national currency in 6 times and the currency has been re-named 8 times.

2.2.2 Netherlands, Developed Experience

Dutch Disease is now a familiar term in economic literature. The appearance of sudden revenue resources from exploitation of gas resulted in an unpredictable inflation in Netherland in 1060s. The government was forced to publish large bills in order to satisfy people's needs in daily exchanges. Meanwhile, the inflation went above 100%. In fact, the government did not last so long. The government started severe policies in currency policies and managed to control the volume of money. In addition, 4 zeroes were removed from the bills of the country. Netherland is a great example, showing the success of the policy of deleting zeroes when it is accompanied by other policies which control liquidity.

2.2.3 Turkey, Successful Experience

Turkey is a European country while having the grounds that are similar to developing countries. It suddenly removed 6 zeroes from its currency in 2005. Inflation started in Turkey in early 1980s and gathered momentum.

Each US dollar was traded with 1422 Turkish old Lira in 1988, and it reached more than 5.1 million Liras in 2003. Each sandwich was being sold for 3 million old Liras in Turkey. Since 1981, the need for having larger notes was being felt every two years.

In a 25-year cycle, the largest Turkish bill turned from 5000 Lira to one million Liras. The large number of zeroes in economic items and exchanges, which sometimes reached multi trillion Liras, had created many problems for people and had made life difficult for those living in this country. According to reports, people had to pay multi-million Liras for buying a piece of bread in the early 2000s in Turkey.

On first of January 2004, the instruction for removing 6 zeros from Turkish Lira was presented and its execution was postponed to early 2005. On the first of January 2005, new bills and coins, called New Lira, entered the market. Execution of this initiative, provided the grounds for economic growth however, the key to its success should be sought in the policies that resulted in this growth.

The economic experts of International Money Fund (IMF) consider Turkey's success in combating inflation the reason behind the effectiveness of the policy of removing zeroes from national currency. According to the report provided by IMF, Turkey managed to fully control the inflation and reduce the inflation rate to single-digit figures before removing zeroes from its currency. Meanwhile reforming currency market helped the economy to set the grounds for economic growth.

2.2.4 Zimbabwe: a Total Failure

Zimbabwe's government decided to remove three zeroes from the national currency when inflation reached 1000% in 2003. However, the government had practically done nothing in regard to controlling the inflation and was only thinking of the psychological effect of deleting zeroes. It is axiomatic that the efficiency of removing zeroes lasted for a short time. The rising inflation eventually ruined the country's economy and Zimbabwe's dollar diminished.

The inflation in the African country went above 11 million per cent and the government was forced to issue 100 million dollar bills in order to provide people with the required bills. The new bills could not solve any problems and they even resulted in many problems in trade and in accounting. The high volume of money in this country posed many problems for people in Zimbabwe. Meanwhile the central bank of the country announced that there was not enough bill paper available to issue the required amount of bills.

2.2.5 Iran

Removing zeroes from Iran's national currency goes back to 16 years ago. The idea was first proposed by the Central Bank in 1993 was marginalized. In 2007, one of the members of economic Commission in the Iranian Parliament asked for further investigations. Thus a special commission was formed and it has been under investigation until now. The related commission first reviewed deleting 3 and then deleting 4 zeroes from the national currency. Iran has faced 10 percent inflation since 1974 and this has encouraged many experts to affirm the necessity of changing the conditions of the national currency.

The present head of Central Bank has already announced that this policy is definite; explaining that although removing 3 zeroes from the national currency is certain, this initiative requires further time and will be kept on hold for now. With a decrease in inflation rate, this initiative will be executed.

2.2.5.1 Reasons for Removing Zeroes from the currency

1. Problems related to having large figures in the daily exchanges
2. Problems related to accounting and calculations
3. Insecurities in carrying large amount of money for daily exchanges
4. Long waits at bank lines due to the problem of counting huge amounts of money
5. Changing national currency from Rial to Toman due to large amounts of money
6. The necessity to use Iran checks with regard to the legal problems associated with it.
7. The high cost of issuing and destroying inflow bills considering the high volume of bills
8. The high rate of bill destruction due to its high volume and thus difficulty of holding them

2.2.5.2 The advantages of removing zeros from national currency

1. reducing the volume of bills
2. reducing the costs of issuing and destroying bills in the country
3. having simpler trades and financial balances
4. strengthening national currency and its value in comparison to other currencies

5. positive psychological effects in the society
6. increasing its efficiency
7. Easier transfer of money
8. Possibility of having more valuable coins after deleting three zeroes by the government

2.2.5.3 Disadvantages and Problems of Removing Three Zeroes from the National Currency

The risks and problems of removing zeroes can be divided as follows:

1. The inflation effect resulting from rounding off the prices to higher amounts
2. Menu cost
3. Psychological effect of the decrease in salaried
4. The risk of sending the capitals abroad and the investors' wait to see the result of the initiative
5. The return of deleted zeroes
6. Costs of re-issuing bills and minting new coins
7. Problems in determining the prices in short terms
8. People's confusion in the short run and the society's confusion until being adapted to the new condition
9. Devaluation of bills and appearance of inflation
10. Lack of relationship between number of zeroes and the value of national currency
11. Lack of changes in the economic process
12. Devaluation and loss of some bills and small coins in the daily exchanges between people
13. The project's failure in case of not being supported by people
14. Decrease in exports as the result of increase in the value of national currency

When deleting zeroes from the national currency is not accompanied by providing the necessary infrastructures and in a sudden manner, it will leave very unpleasant effects on people's power of purchase.

If removing zeroes occurs when economic reforms have proved to be ineffective or when the economic stability policies are just in the mid way, no desirable results will be gained by changing the national currency.

3. DISCUSSION AND CONCLUSION

It should be noted that deleting zeroes from national currency can only be effective when it is accompanied by anti-inflation policies and austerity measures in the realm of financial policies, financial regularities of the government as well as attempts to get rid of long-lasting budget deficits and reliance of oil revenues. Otherwise, removing zeroes will soon lose its psychological effect and the zeroes will return with even more strength. In other words, the best solution to combat the rising inflation and to execute the economic stability program is independence of Central Bank from the government and removing the problem-making economic policies. Deleting the zeroes can help to decrease the inflation and execute economic stability programs in two ways. First, removing zeroes from the national currency can be done at the end of economic stability program so to provide people and private agencies the confidence that the era of high inflation has passed. Removing zeroes in such a condition is totally symbolic because inflation has been controlled due to other factors and thus removing zeroes will not lead to decreasing the inflation on its own. Second, it will gain the trust of foreign investors and thus attracting more foreign investment, facilitating the process of economic growth for the countries. Finally, in order to increase the value of national currency, economic power needs to be increased as well. This is due to the fact that with the help of powerful economy, the value of national currency can be strengthened and then with controlling the inflation, positive measures would be taken in the long term.

4. SUGGESTIONS

In the country's economy, we need to move towards electronic trade and transfer through bank systems, ATMs, checks and the like so that transfer of money is moved towards electronic banking and de-motivate people from carrying bills.

1. Importance of Cultural Development

In order to implement this project, the necessary grounds need to be provided. Removing three zeroes can result in some sort of confusion between the former and the new data in journals, data banks, and financial statements. Such a problem can be minimized by proper cultural development and providing a correct definition of old currency and new currency.

2. The Importance of Supervising the price exchanges

While implementing the project of removing zeroes from the national currency, the prices might witness some inflation. In other words, some people might try to increase the price of their goods along with the change in the national currency. Meanwhile, decreasing the basic currency might result in the necessity to round off the prices in order to get rid of small coins, thus leading to inflation. This problem could be minimized by proper supervision and provision of necessary information in order to prevent tangible impacts on the country's economy.

3. Encouraging People to Use Electronic Transfer and Electronic Banking
In the country's economy, we need to move towards electronic trade and transfer through bank systems, ATMs, checks and the like so that transfer of money is moved towards electronic banking and de-motivate people from carrying bills.
4. The time of implementing the project of removing zeroes from national currency needs to be postponed to the time that it will have the highest amount of effectiveness in the country's economy. If implementation of this project does not occur in the appropriate time and as part of the package for reforming financial and banking system of the country, it will lose part of its effects.

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