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Currency Redenomination

Can Hoarded Money Be Accessed at Present?

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Al-Bayan Center pursues its vision by conducting independent analysis, as well as proposing workable solutions for complex issues that concern policymakers and academics.

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I. Abstract

- The process of removing zeros can simplify financial and accounting transactions, reduce the large numbers used in payment and pricing operations, improve the nominal appearance of the currency, and enhance the confidence of those using it. It also contributes to mitigating the psychological effects caused by the inflation of nominal numbers.

- From a monetary perspective, the process of removing zeros is not limited to replacing banknotes; rather, it represents part of a comprehensive economic and monetary reform program aimed at supporting price stability and enhancing the credibility of monetary policy, in a manner that prepares the appropriate environment for achieving economic stability and improving the performance of the financial system.

- Removing zeros is an economic process undertaken by established economies during various historical periods in accordance with economic necessities. These include Germany after World War II, Brazil, which carried it out more than three times, and Turkey, which resorted

to removing three zeros in 2005, alongside several other countries.

- The Central Bank of Iraq proposed the idea of removing zeros several years ago. Some believe that this process does not require parliamentary legislation, as it is considered within the authorities of the Central Bank in accordance with Articles 32, 33, and 36 of the Central Bank Law No. (56) of 2004. Conversely, others believe that the process requires a law issued by the Council of Representatives, as it constitutes a legal revaluation of the monetary unit, with subsequent implications for debt, contracts, government payments, and more.

- Global experiences indicate that monetary reform, including the removal of zeros, achieves better results when coupled with an expansion in the use of electronic payment methods and the linking of currency replacement operations to bank accounts and digital wallets. This allows a significant portion of the currency circulating outside the banking system to be converted into bank deposits that can be employed in economic activity.

- Iraq witnessed an evolution in financial digitalization indicators during 2023 and 2024. The value of operations executed through the National Switch rose from 800 billion dinars to more than 2 trillion dinars within a single year, and electronic government payments increased to approximately 912 billion Iraqi dinars.

- The success of the zero-removal project in Iraq requires transitioning from the traditional concept based on replacing banknotes to a broader concept embodied in digital monetary reform. In this manner, the currency replacement process becomes part of a comprehensive program aimed at restructuring the monetary cycle, enhancing financial inclusion, and reducing reliance on paper cash liquidity.

- Monetary reform, including the removal of zeros from the national currency, is often accompanied by the development of digital payment systems and electronic banking services. If achieved, this will yield better results in stabilizing the monetary system and increasing the efficiency of monetary policy, compared to countries that merely changed currency denominations without undertaking a monetary and technical reform process.

- The International Monetary Fund points out that digital transformation in the financial sector is one of the most important requirements for enhancing financial stability and improving the efficiency of liquidity management. Therefore, Iraq needs to adopt an integrated program based on opening a bank account or electronic wallet for every citizen before initiating the currency replacement process.

- As part of the currency transition process in Iraq, the replaced amounts would be deposited directly into bank accounts, granting their owners the freedom to withdraw them gradually or use them in electronic payment operations, while benefiting from incentives and advantages that could be offered to encourage this process.

- The proposed approach aligns with the goals of the National Financial Inclusion Strategy (2025–2029), which aims to increase the rate of financial account ownership to 50% of the adult population and raise the use of digital payments to 85% by 2030.

- Iraq needs to work on launching incentives that encourage citizens to deposit funds in banks, such as exempting new deposits from certain fees, granting promotional returns on deposits, or providing credit facilities to depositors.

- As an encouraging measure, the government could disburse all salaries and payments through bank accounts, expand the use of Point of Sale (POS) devices and electronic wallets across all commercial and service activities, and work on creating velocity of circulation for electronic money within the economy while reducing electronic transaction costs.

- Implementing the zero-removal program at the present time -in the absence of fundamental requirements and remedies related to weak confidence in the banking sector, the disparity in digital infrastructure among Iraqi governorates, and the low level of financial and digital literacy among a not insignificant portion of the population, in addition to the need to develop legislation for data protection and cybersecurity, increase investments in data centers and telecommunications networks, and ensure the stability of electricity and the internet- will not achieve the desired results if these factors are not addressed; rather, its repercussions will be dangerous.

- The success of monetary reform in Iraq requires integrating the zero-removal policy with financial digitalization within an integrated economic and banking reform program that guarantees achieving monetary stability and improving the efficiency of the financial system.

II. Introduction

The stability of the monetary system is considered one of the most important objectives of monetary policy, as it contributes to enhancing confidence in the national currency, achieving financial stability, and supporting economic activity. However, the Iraqi economy faces multiple challenges related to liquidity management, represented by the high volume of cash circulating outside the banking system, weak financial inclusion, and continued reliance on cash transactions in most economic activities. This has led to the emergence of a gap between the volume of the circulating money supply and the volume of liquidity available within banks. Therefore, the

Central Bank of Iraq views enhancing financial inclusion and transitioning towards digital payments as one of the most critical pillars of financial reform in the coming years.

Available official data from the Central Bank of Iraq indicates that the volume of currency circulating outside the banking system reached 93.4 trillion dinars at the end of 2024, while the broad money supply (M2) amounted to approximately 174.0 trillion dinars. This means that more than half of the cash liquidity remains outside the banking sector, which limits the ability of banks to finance economic activity and significantly weakens the effectiveness of monetary policy tools in Iraq.[1] Conversely, during 2023 and 2024, Iraq witnessed a clear expansion in the use of electronic payment methods, as part of the Central Bank's efforts to reduce reliance on paper cash. Additionally, the National Financial Inclusion Strategy (2025–2029) included ambitious goals represented by raising the rate of bank or digital account ownership to 50% of the adult population by 2030 and increasing the use of digital payments to 85%, in a manner that enhances the financial system's ability to attract hoarded money and integrate it into the economic cycle.

1. Central Bank of Iraq, Annual Economic Report 2024, Statistics and Research Department, Baghdad, 2025.

From this standpoint, the importance of linking the zero-removal project with digital transformation emerges, ensuring that monetary reform is not limited to replacing banknotes after the zeros are removed, but rather transforms into a tool for returning hoarded funds to the banking system. This is achieved by encouraging the use of bank accounts, electronic wallets, and digital payment systems, thereby addressing the problem of cash liquidity shortages and enhancing the efficiency of monetary policy in Iraq.

III. The Policy of Removing Zeros: Concept, Objectives, and International Experiences

Redenomination, or the removal of zeros, is one of the monetary reform tools that countries resort to in order to address imbalances afflicting the monetary system, especially after periods of high inflation or a decline in the currency's purchasing power. With the development of economic activity and the expansion of the scope of commercial and financial exchanges, the need arose to develop monetary systems in a manner that aligns with economic variables and enhances their efficiency. From this perspective, many countries have moved to restructure their national currencies by removing a specific number of zeros and replacing the old currency with a new one according to a determined conversion rate, without this resulting in a change in the real value of wealth or incomes.

The process of removing zeros aims to simplify financial and accounting transactions, and to reduce the large numbers used in payment and pricing operations, in addition to improving the nominal appearance of the currency and enhancing user confidence in it. It also contributes to mitigating the psychological effects caused by the inflation of nominal numbers; the circulation of banknotes with high numerical values may entrench an impression among individuals of currency depreciation, even if this does not reflect its real value.

The zero-removal process is not restricted merely to replacing banknotes, but rather represents part of a more comprehensive economic and monetary reform program aimed at supporting price stability and enhancing the credibility of monetary policy, thereby creating the appropriate environment for achieving economic stability and improving financial system performance. Generally, the zero-removal policy seeks to achieve a set of economic and monetary objectives, the most important of which are:[2]

2. Abdul Hussein Jalil Al-Ghalibi and Rajaa Jaber Abbas, Monetary Reform and the Policy of Removing Zeros from the Iraqi Dinar, Al-Ghari

1. Enhancing confidence in the national currency locally and internationally.

2. Simplifying the processes of carrying and circulating the local currency and facilitating its use.

3. Facilitating commercial and financial exchange operations between individuals and institutions.

4. Supporting price stability efforts and mitigating the negative effects of inflation.

5. Simplifying conversion operations between the national currency and foreign currencies.

6. Curbing the dollarization phenomenon and enhancing reliance on the national currency.

7. Preparing the economic environment for greater integration into regional and global markets.

Many countries around the world have succeeded in implementing this policy after preparing the appropriate economic and institutional conditions. These include Germany in 1948, when it replaced the Reichsmark with the Deutsche Mark as part of a monetary reform process; Brazil, which

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carried out five operations to remove zeros from its currency - at a rate of three zeros each time - during the period 1967–1994; Turkey, which removed six zeros from its currency in 2005; Romania, which removed four zeros; Zimbabwe, which removed ten zeros from its currency in 2008; as well as Iran, which removed four zeros. As is illustrated in the table below.

Table 1: The most important countries that implemented the policy of removing zeros from their currencies during the period 1948–2021

Country	Year of	Number of Zeros Removed	Notes
Germany	1948	Indirect	Replacement of the Reichsmark with the Deutsche Mark as part of monetary reform
Brazil	1994–1967	zeros 18	Executed several consecutive operations until the launch of the Real in 1994
Argentina	1992–1970	zeros 13	Four operations to rename the currency during periods of high inflation
The Zionist Entity	and 1980 1985	zeros 6	Within the anti-inflation and economic reform program
Poland	1995	zeros 4	New Zloty = 10,000 1 Old Zlotys
Turkey	2005	zeros 6	New Lira = 1,000,000 1 Old Lira
Romania	2005	zeros 4	New Leu = 10,000 Old 1 Leu
Azerbaijan	2006	zeros 3	New Manat = 5,000 1 Old Manat
Ghana	2007	zeros 4	New Cedi = 10,000 1 Old Cedi

Venezuela	2008	zeros 3	Strong Bolivar
North Korea	2009	zeros 2	Old Won = 1 New 100 Won
Zimbabwe	–2006 2009	zeros 25	Several operations due to hyperinflation
Zambia	2013	zeros 3	New Kwacha = 1,000 1 Old Kwacha
Belarus	2016	zeros 4	Currency restructuring and reissuance of coins
Venezuela	2018	zeros 5	Sovereign Bolivar
Venezuela	2021	zeros 6	Digital Bolivar
Iraq	Under study	zeros 3	The Central Bank proposed removing three zeros from the Iraqi Dinar as part of a future monetary reform project

Source: Table prepared by the researcher based on the websites and publications of the central banks of the mentioned countries.

The Central Bank of Iraq introduced the zero-removal project more than a decade ago with the aim of restructuring the Iraqi currency and facilitating circulation operations; however, the project was not implemented due to economic, political, and security conditions, in addition to the need to prepare the appropriate legislative[3] and technical environment.

3. Although some believe this process does not require parliamentary legislation, as it falls within the authorities of the Central Bank

Consequently, the success of this project is tied not only to issuing new banknotes but also to the extent of monetary policy's ability to leverage the replacement process to return hoarded funds[4] to the banking apparatus and enhance confidence in the financial system. From an economic standpoint, removing zeros alone does not lead to an increase in available liquidity within banks, because hoarded funds can simply transition from old banknotes to new ones if the replacement process is not accompanied by regulatory and promotional measures that compel their owners to deposit them into bank accounts. Therefore, international experiences indicate that monetary reform achieves better results when coupled with the expansion of electronic payment methods and the linking of currency replacement operations to bank accounts and digital wallets, in a way that permits a large portion of the cash circulating outside the banking system to be transformed into bank deposits that can be utilized in

under Articles 32, 33, and 36 of Central Bank Law No. (56) of 2004, others believe the process requires a law issued by the Council of Representatives, as it constitutes a legal revaluation of the monetary unit, with consequent effects on debt, contracts, government payments, and other matters.

4. Hoarding: The practice by which individuals or institutions retain money or liquid assets outside the economic cycle, refraining from using them for consumption or investment or depositing them in the banking system, thereby disabling their economic function.

economic activity.

IV. Digitalization as a Tool to Attract Hoarded Funds

Digital transformation represents one of the most important modern tools for addressing the cash hoarding problem, as it contributes to reducing reliance on paper money, increasing the velocity of money circulation, and enhancing the ability of monetary authorities to monitor financial flows. Furthermore, the proliferation of electronic payments leads to a higher percentage of funds deposited in banks, which bolsters the banking system's capacity to grant credit and finance investment, and increases the effectiveness of monetary policy tools in managing liquidity. The International Monetary Fund has affirmed that expanding the use of digital payments constitutes one of the most significant ongoing reforms in Iraq, due to its role in reducing cash dependency and improving financial inclusion.[5]

Iraq has witnessed a notable development in financial digitalization indicators during 2023 and 2024. The value of operations executed through the National Switch rose from approximately 800 billion dinars to more than 2 trillion dinars

5. IMF, 2024 Article IV Consultation - Press Release; Staff Report; and Statement by the Executive Director for Iraq, Country Report No. 24/128, May 2024.

within a single year, and electronic government payments increased to nearly 912 billion dinars. Furthermore, electronic payment operations at gas stations increased substantially as a result of mandating a number of government institutions to use electronic payment methods, which reflects the success of the measures taken by the Central Bank of Iraq in expanding the use of digital payment tools.

Additionally, new regulatory measures, including expanding the use of Point of Sale (POS) devices and raising withdrawal and payment limits on bank cards, have contributed to increased demand for digital banking services. Reports from the United Nations Development Programme (UNDP) indicate that the issuance of instructions regulating digital payment services No. (2) of 2024 represents a turning point in modernizing Iraq's financial infrastructure by enhancing financial inclusion and reducing reliance on paper cash. This signifies the provision of an environment suitable for the success of any future national currency reform program.[6]

6. United Nations Development Programme (UNDP), The Turning Point: Iraq's Leap into the Digital Economy, United Nations Development Programme, December 3, 2024, Available at: https://www.undp.org/arab-states/press-releases/turning-point-iraqs-leap-digital-economy

Accordingly, the zero-removal project can be viewed as an opportunity to launch a national program for restructuring the monetary cycle, in a manner that encourages citizens to deposit hoarded funds into bank accounts or electronic wallets upon currency replacement, while granting financial or banking incentives to depositors, and expanding the scope of digital payment usage across all governmental and commercial transactions. Such a policy would increase the volume of bank deposits, decrease the demand for paper cash, and grant the Central Bank greater ability to manage liquidity and control the money supply, instead of leaving a large portion of the monetary mass outside the economic cycle.

V. A Proposed Vision for Integrating the Zero-Removal Policy with Digitalization to Limit Hoarding

The success of the zero-removal project in Iraq requires transitioning from the traditional concept based on replacing banknotes to a broader concept embodied in digital monetary reform. Under this framework, the currency replacement process becomes part of a comprehensive program aimed at restructuring the monetary cycle, enhancing financial inclusion, and reducing reliance on paper cash. International experiences confirm that economies which accompanied monetary reform with the development of digital payment systems and electronic banking services achieved better results in stabilizing the monetary system and increasing the efficiency of monetary policy, compared to countries that merely changed currency denominations without undertaking a reform process.

The International Monetary Fund also indicates that digital transformation in the financial sector has become one of the most critical requirements for enhancing financial stability and improving the efficiency of liquidity management. To achieve this, an integrated program can be adopted based on opening a bank account or an electronic wallet for every citizen prior to initiating the currency replacement process, such that the replaced amounts are deposited directly into bank accounts, with their owners granted the freedom to gradually withdraw them or use them in electronic payment operations, and benefiting from the incentives and advantages that could be offered to encourage this process.

This measure contributes to introducing a large portion of hoarded funds into the banking system, provides a financial database that assists in developing banking services and increasing financial inclusion, and improves the Central Bank's capacity to manage the money supply and control liquidity levels. This orientation is aligned with the objectives of the National Financial Inclusion Strategy (2025–2029), which targets raising the rate of financial account ownership to 50% of the adult population and increasing the use of digital payments to 85% by 2030.[7]

This policy must coincide with granting incentives that encourage citizens to deposit funds in banks, such as exempting new deposits from some fees, offering promotional returns on deposits, or providing credit facilities for depositors, as well as mandating government institutions to disburse all salaries and payments via bank accounts, and expanding the use of Point of Sale (POS) devices and electronic wallets across all commercial and service activities. These measures would increase the velocity of money circulation within the economy, lower cash handling costs, and enhance the efficiency of the financial system in Iraq.

VI. Expected Advantages and Challenges

Applying the zero-removal policy in conjunction with financial digitalization in Iraq could yield a set of positive economic

7. Central Bank of Iraq, National Financial Inclusion Strategy 2025-2029, Baghdad, 2025.

impacts, the most important of which are:

1. Attracting hoarded funds and returning them to the banking apparatus, which increases deposit volumes and bolsters banks' capacity to finance investment and the private sector.

2. Addressing the problem of cash liquidity shortages within the banking system without the need to increase currency issuance.

3. Reducing the costs of printing, transporting, storing, and destroying paper currency due to decreased reliance on cash.

4. Increasing the effectiveness of monetary policy by improving the Central Bank's ability to track cash flows and manage the money supply.

5. Enhancing financial inclusion by increasing the number of bank accounts and electronic wallets.

6. Limiting the informal economy and reducing tax evasion and money laundering, owing to the higher percentage of electronically recorded transactions.

7. Improving the efficiency of government spending

and accelerating electronic payment and collection operations, reflecting positively on the quality of public services.

Despite the expected advantages, the success of this policy requires addressing a number of challenges, primarily: weak confidence in the banking sector, the disparity in digital infrastructure between Iraqi governorates, and low financial and digital literacy among a not insignificant segment of the population. This is in addition to the need to develop legislation for data protection and cybersecurity, increase investments in data centers and telecommunications networks, and ensure stable electricity and internet connectivity, which are fundamental pillars for the success of transitioning towards a digital economy. Furthermore, implementing the zero-removal project in the absence of these requirements may limit the achievement of the desired goals and lead to the continuation of the cash hoarding phenomenon, albeit with new currency denominations.

VII. Conclusion and Action Steps

From the aforementioned, it becomes clear that the problem of cash liquidity shortages in Iraq is not due to a low volume of the monetary mass, but rather to the high percentage of hoarded funds outside the banking system, and the consequent weak capability of banks to perform their role in financing economic activity. It is also evident that the zero-removal policy, despite its importance in simplifying the monetary system and lowering currency handling costs, will not fully achieve its economic objectives if implemented in isolation from a national project for digital transformation.

Furthermore, the expansion of electronic payments and financial inclusion provides a real opportunity to attract hoarded funds, particularly if the currency replacement process is linked to opening bank accounts and digital wallets, in a manner that bolsters deposit volumes, raises the efficiency of monetary policy, and reduces reliance on paper cash. Therefore, the success of monetary reform in Iraq necessitates integrating the zero-removal policy with financial digitalization within a comprehensive economic and banking reform program that ensures the achievement of monetary stability, improves the financial system's efficiency, and supports the transition towards a digital economy.

As for the actionable steps that must be undertaken, they can be summarized in the following points:

1. Adopting the zero-removal project as part of a comprehensive program for monetary reform and digitalization, rather than viewing it merely as a technical measure to change currency denominations.

2. Linking the currency replacement process to the opening of bank accounts or electronic wallets for all citizens.

3. Providing financial and legislative incentives to encourage the depositing of hoarded funds into banks.

4. Expediting the completion of the digital payments infrastructure, and expanding the deployment of Point of Sale devices and electronic wallets.

5. Enhancing confidence in the banking sector by developing electronic services, ensuring the swift execution of transactions, and protecting depositors' rights.

6. Issuing comprehensive legislation for data protection and cybersecurity, in a way that fosters confidence in digital transactions.

7. Implementing national campaigns through various

media outlets and social media platforms for financial and digital education, encouraging societal acceptance of electronic payment methods, and reducing reliance on paper cash.

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