ABSTRAK

The purpose of this research was examined factors urge a redenomination. While decisions on denomination and design of currencies may seem more technical than political, a government’s control and administration of its currency and transactions within its boundaries is one of the hallmarks of the modern nation-state. With the discourse of the Indonesian central bank researchers wanted to investigate about the proper inflation level to take the redenomination. This Research aims at analysing the effect variable of inflation, exchange rate and index democracy on redenomination to identify the most variable than in affective redenomination. The population of this research is a country that is listed at the World Bank. Data used is secondary data. By using a purposive sampling method states that have complete data in the research consisted of 36 countries. The data is analyzed using of binary logistic regression statistical tests and with the help of SPSS Version 13.0 software and Microsoft Excel 2007. The results of this research indicate that (1) exchange rate no significant effect on the decision to redenomination, (2) Form of government no significant effect on the decision to redenomination, (3) inflation significantly influence decisions redenomination of the most special is the inflation t-5. A country does not do redenomination is directly due to the socialization and factors - factors of conflict within a countries.

INTRODUCTION

Since 1960, governments of developing and transition economies have redenominated their currencies on approximately seventy occasions (Mosley, 2005). Redenomination generally involves the process whereby a country’s currency is recalibrated through reduction in the number of zeros in the currency with a view to achieving a set of given economic and fiscal objectives.

While decisions on denomination and design of currencies may seem more technical than political, a government’s control and administration of its currency and transactions within its boundaries is one of the hallmarks of the modern nation-state. Even though such monetary control began in the mid-nineteenth century, today, the main struggle is still to maintain this control, particularly in the face of civil conflict or economic collapse (Woodruff, 1990 in Mosley, 2005).

The central bank of Indonesia through the Indonesian central bank governor Darmin, on 2 August 2010 stated that the discourse made possible redenominated IDR. Redenominated is a reduction in the value of the currency denomination without reducing its value. Forms redenominated dollars being initiated by the BI is to eliminate the last three zeros. So fractional 1,000 will be IDR 1. BI has made study visits to countries that have done redenominated value of its currency as well as Turkey and Romania.

Redenominated is cutting the value of a currency becomes smaller without changing its exchange rate. In times of inflation, the same amount of monetary units have slowly weakened purchasing power. In other words, the price of products and services must be written with a larger amount. When these numbers are getting bigger, they can affect daily transactions because of the risks and discomfort caused by a number of bills that must be taken, or because of human psychology that is not effectively handle large number calculation. The authorities can minimize this problem by re-denominated. The new unit replaces the old unit with a certain number of units of the old converted into a new unit. If re-denominated reason is inflation, the conversion ratio can be greater than 1, usually a positive number multiple of ten, such as 10, 100, 1,000, and so on. This procedure can be referred to as "the removal of zero."

With the discourse of the Indonesian central bank researchers wanted to investigate about the proper inflation level to take the redenomination. Previous research analyzed using survival analysis to examine the expectations for conduct redenomination. Therefore, researchers wanted to test Factors Urge A Redenomination.

This research discusses the factors that drive countries to carry out redenomination. Factors that drive redenomination are studied, such as the level of appreciation, the form of government and the exchange rate. Redenomination referred to in this study is the policy of eliminating zeros on the currencies of countries that carry out redenomination.

Redenomination

Currency redenomination is the process where a new unit of money replaces the old unit with a certain ratio. It is achieved by removing zeros from a currency or moving some decimal points to the left, with the aim of correcting perceived misalignment in the currency and pricing structure, and enhancing the credibility of the local currency (CBN, 2007). According to Moslay (2005) redenomination also extends to adding of zeros to the currency as recorded in the immediate post-independence period by South Africa (1961), Sierra Leone (1964), Ghana (1965), Australia (1966), The Bahamas (1966), New Zealand (1967), Fiji (1969), the Gambia (1971), Malawi (1971) and Nigeria (1973). According to CBN (2007) however, adding of zeros to the currency is called decimalization, which in management of currencies, is the process of converting from traditional denominations to a "decimal" system, usually with two units differing by a factor of 100.

Exchange rate

According to Akinboade, Siebrits and Roussot (2006) state that "low inflation is taken to be a sign of internal economic stability in the host country. High inflation indicates the inability of the government to balance its budget and the failure of the central bank to conduct appropriate monetary policy." In other words, inflation can be used as an indicator of the economic and political condition of the host country, but the differences between "high" inflation and "low" inflation is not distinct

Based on the above theoretical basis, it can be formulate the following hypotheses.

Hypotheses 1: simultaneously exchange rate, inflation and form of government influence redenomination and its driving factors.

Hypotheses 2: partially exchange rate, inflation and form of government influence redenomination and its driving factors

RESEARCH METHOD

Type data used in this research is data secondary which obtained through Inflation data from the World Bank, World Development Indicators annual percent change in consumer prices index, Nation Master, and The Economist Intelligence Unit’s index of democracy. Data necessary in this research cover inflation.
Results and discussion

Based on data that has been tested using descriptive statistics. Where descriptive statistics will display data images for checking. Descriptive data includes the average, minimum and maximum values, the standard deviation values ?of all variables to be analysed. Descriptive statistical results from the processing variables used in this study are presented in Table 1.

Table 1 shows that the minimum and zero values ??are one. This shows that the zero value is that the State has never redenominated and the value of one is for countries that have redenominated. There are 25 redenomination and 11 countries have never been redenominated. Twenty-five countries have been redenominated at one opportunity and some countries have done redenomination several times. In the case of Brazil in the 1980-1995 period, it was redenominated 4 times. Brazil is the country most often redenominated. While Bolivia redenominated twice in 1963 and 1987. And not all Countries redenomination action during periods of high inflation countries such as Ghana in 1977 with 116.45% inflation in 1963 and Indonesia has 131.49% inflation.

Exchange Rate

Table 1 shows the lowest exchange rate is .06 while the highest rate was 7102.00. Means a country that has a minimum exchange rate and Brazil is a country that has the lowest exchange rate is the country of Laos.

Exchange rate in Brazil is a good country is said to lower the exchange rate against the dollar value of a country, the exchange rate will improve. While Laos has a poor exchange rate, said exchange rate continues to expand the exchange rate a country will deteriorate. Because the dollar is the benchmark of a country in the exchange rate. Countries that have a good exchange rate Latvia and Peru are less than 1 per dollar. While Angola and Laos is a country that has the exchange rate is above 1000.

Form of government

Table 1 shows that the minimum and maximum its 1 and 4 which means 1 is the country that a full democracy, while 4 is a Country that authoritarian regimes.

Inflation

While the inflation of 5 years prior to redenomination (t-5) Minimum inflation and inflation 7:00 maximum 23773.00 means that countries that have experienced the lowest inflation is Laos and the highest inflation rate is Countries Rep. Congo Dem.

Inferential analysis

Simultaneous Effects

The Hosmer-Lemeshow test the null hypothesis that there is a linear relationship between predictor variables and the log odds criterion variable By looking at the value goodness of fit test which is measured by value Chi-Square at the bottom of the test Hosmer and Lemeshow :
- If Probability> 0.05 hence H0 is accepted.
- If Probability <0.05 hence H0 is rejected

Table 1

<table>
<thead>
<tr>
<th>N</th>
<th>Min</th>
<th>Max</th>
<th>Mean</th>
<th>Std. Dev</th>
</tr>
</thead>
<tbody>
<tr>
<td>Redenomination</td>
<td>36</td>
<td>0.06</td>
<td>7102.00</td>
<td>327.12</td>
</tr>
<tr>
<td>Exchange Rate</td>
<td>36</td>
<td>0.06</td>
<td>7102.00</td>
<td>327.12</td>
</tr>
<tr>
<td>Form of Government</td>
<td>36</td>
<td>2.58</td>
<td>4.874</td>
<td>2.58</td>
</tr>
<tr>
<td>Inflation</td>
<td>36</td>
<td>2.570</td>
<td>7481.66</td>
<td>661.30</td>
</tr>
<tr>
<td>Inflation_1</td>
<td>36</td>
<td>7.97</td>
<td>4447.87</td>
<td>547.94</td>
</tr>
<tr>
<td>Inflation_2</td>
<td>36</td>
<td>7.97</td>
<td>4447.87</td>
<td>453.39</td>
</tr>
<tr>
<td>Inflation_3</td>
<td>36</td>
<td>3.69</td>
<td>11750.00</td>
<td>801.11</td>
</tr>
<tr>
<td>Inflation_4</td>
<td>36</td>
<td>4.41</td>
<td>4735.00</td>
<td>506.36</td>
</tr>
<tr>
<td>Inflation_5</td>
<td>36</td>
<td>7.00</td>
<td>23773.00</td>
<td>1252.45</td>
</tr>
</tbody>
</table>

Source: Secondary data proceed
The results of this study generate a hypothesis about the factors that influence a government decision to do the redenomination. Of the three independent variables, the most dominant effect is on inflation. Inflation is influential in this variable is the inflation-t. At the same time, however, not all countries by doing a redenomination. It also could indicate that other factors apart from the factor of inflation. Political factors also influence a country do redenomination. The predictor of a country do redenomination is inflation in the year prior to redenomination.

**CONCLUSION AND SUGGESTION**

Based on regression analysis that examined driving factors redenomination as follows:
1. Simultaneously, exchange rate, inflation, and from of government influence driving factors redenomination.

2. This research can be expanded by adding independent variables suspected influential against dependent variable.

**REFERENCES**


Exchange Rate. (2010). “Official exchange rate LCU per US$, period average (most recent) by country.”


**Table 2.** Test Results Hosmer and Lemeshow Test Binary

<table>
<thead>
<tr>
<th>Step</th>
<th>Chi-square</th>
<th>df</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>8113</td>
<td>7</td>
<td>.323</td>
</tr>
</tbody>
</table>

Source: Secondary data proceed

Because the figure is 0.323 probabilities which are > 0.05, then Ho is accepted. So does it mean regression model is feasible in use for further analyze. H0 is a linear relationship with variable criteria Predictor variables. Simultaneously, all factors that exist in these variables affect the redenomination. When a country wants to do redenomination countries consider important to the four variables which include: exchange rate, inflation, and form of government.

**Partial Effects**

**Table 3.** Results for Binary Logistic Regression

<table>
<thead>
<tr>
<th>Step 1</th>
<th>Exchange Rate</th>
<th>B</th>
<th>S.E.</th>
<th>Wald</th>
<th>df</th>
<th>Sig.</th>
<th>Exp(B)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>.001</td>
<td>.001</td>
<td>1.637</td>
<td>1</td>
<td>.201</td>
<td>1.001</td>
</tr>
</tbody>
</table>

Source: Secondary data proceed

By t test, at the end of the output shows that only variable bX1 ( -b) statistically significant in view of significant figures in the variable bX1 ( -b) below 0.38 is 0.05. Table 4.5 shows that the most significant factor is the inflation of 5 years before redenomination (t). In the year of redenomination also affect to the decision makers to do the redenomination (t), although the level of significance 0.074 More than 0.05. Inflation in the t-choose a significance of .102 also affects the decision to redenomination. Likewise with the Form of Government can affect a country’s conduct or dropped a decision to redenomination. Most no effect on inflation of t-test it is the highest level of significance is .308.

Y = .055 + .201 + .123 + .074 + .172 + .244 + .308 + .102 + .038 + e

In countries that have occurred hyperinflation, the government faces uphill battle to gain the trust of international and domestic markets. According Mosley, 2005 the most direct means is through a stabilization program, which involves using generally either exchange rate-based or-oriented monetary targeting; increasing the operational independence of the central bank; and removing distortionary economic policies. Countries with the need to redenomination in May 1970 again have this need in 1980. The hazard estimate also leaves open the possibility, again, for political considerations to affect redenomination: once the redenomination dam has been broken, it becomes a more viable political option. This assertion Could Be tested in future work using case studies of (the consideration of) redenomination, as well as assessing public opinion data before and after Various Rounds of redenomination (or in countries with similar economic problems, but with more or less redenomination experience).

**Table 4.** Source: Secondary data proceed

By t test, at the end of the output shows that only variable bX1 ( -b) statistically significant in view of significant figures in the variable bX1 ( -b) below 0.38 is 0.05. Table 4.5 shows that the most significant factor is the inflation of 5 years before redenomination (t). In the year of redenomination also affect to the decision makers to do the redenomination (t), although the level of significance 0.074 More than 0.05. Inflation in the t-choose a significance of .102 also affects the decision to redenomination. Likewise with the Form of Government can affect a country’s conduct or dropped a decision to redenomination. Most no effect on inflation of t-test it is the highest level of significance is .308.