

The Effect Of Monetary Policy On Economic Growth In Mogadishu Somalia, Case Study Central Bank Of Somalia

Farhan Bashir Ali (CIRRO)

Salaam University, faculty of Economics and management science,
Benadir Region, Somalia, PH-+252616369522
farhanbashir@gmail.com

Abstract: The Main purpose of this article was examining the effect of monetary policy on economic growth in Mogadishu Somalia. to describe the effect of unemployment rate on economic growth in Mogadishu Somalia, to examine the effect of inflation on economic growth in Mogadishu, to investigate the relationship between currency exchange rate and economic growth in Mogadishu Somalia. the target population was 60 and sample size was 38, employees at central bank; The study was conducted through descriptive research design and used questionnaires as the main instrument for collecting data. Data was analyzed using SPSS by assessing the frequency of respondents per question. The findings of study that the effect of unemployment rate on economic growth at the have objective one, agree which represents (76.3%), the second groups are answered strongly agree which represents (13.2%), third groups are answered neutral which represents (2.6%) and fourth groups are disagree which represents are (7.9%). There is inverse relationship between economic growth and unemployment. While objective two examines the effect of inflation on economic growth have the following findings under this objective. The majority of the respondents are reported agree which represents (57.9%), the second groups are answered strongly agree which represents (26.3%), third groups are answered neutral which represents (2.6%) and fourth groups are disagree which represents are (2.6%) and fifth groups are answered strongly disagree Which represents (10.5%). The effect of inflation on economic growth is nonlinear which means negative effect. Third objective of the study was to investigate the relationship between the currency exchange rate and economic growth. The majority of the respondents are answered agree which represents (55.3%), the second groups are answered strongly agree which represents (26.8%), third groups are answered neutral which represents (5.3%) and fourth groups are disagree which represents are (5.3%) and fifth groups are answered strongly disagree Which represents (7.9%). The relationship between the exchange rate and economic growth is certainly a positive. The result further showed that there is a significant relationship between monetary policy and economic growth. The Article recommends Formulating and implementing monetary and exchange rate policies. The federal government of Somalia must tackle widespread unemployment in the country by creating job opportunities. Central bank of federal government of Somalia should use capital controls, foreign reserve accumulation and foreign exchange management to reduce the risk of financial crises. Central bank of federal Governments of Somalia should use a contractionary monetary policy to fight inflation. Central bank of the government of Somalia should be center of financial management.

Key words: monetary policy; Economic growth

Introduction

Monetary Policy is concerned with discretionary control of money supply by the monetary authorities (Central Bank with Central Government) in other to achieve stated or desired economic goals. Governments try to control the money supply because most governments believe that its rate of growth has an effect on the rate of inflation. Hence monetary policy comprises those government actions designed to influence the behavior of the monetary sector. Monetary Policy is the deliberate use of monetary instruments (direct and indirect) at the disposal of monetary authorities such as central bank in order to achieve macroeconomic stability. Monetary Policy is essentially the tool for executing the mandate of monetary and price stability. Monetary policy is essentially a program of action undertaken by the monetary authorities generally the central bank, to control and regulate the supply of money with the public and the flow of credit with a view to achieving predetermined macroeconomic goals (Amiri & Gang, 2018). Monetary policy as one of the tools of controlling money supply in an economy of a nation by the monetary authorities in order to achieve a desirable economic growth. Monetary

policies are effective only when economies are characterized by well developed money and financial markets like developed economies of the world. This is where a deliberate change in monetary variable influences the movement of many other variables in the monetary sector. Monetary policy consists of a Government's formal efforts to manage the money in its economy in order to realize specific economic goals. Three basic kinds of monetary policy decisions can be made about The amount of money in circulation, The level of interest rate, The functions of credit markets and the banking system. In Somalia is one of the world's poorest countries; extreme income poverty is prevalent throughout the country. Two and half decades of conflict, concentrated mainly in southern Somalia, destroyed much of the country's governance structure, economic infrastructure, and institutions. Following the collapse of the Said Barre government, in January 1991, Somalia experienced deep cycles of internal conflict that fragmented the country, undermined legitimate institutions, and created widespread vulnerability. Administrative institutions, provided social and educational services, facilitated an active civil society, supported a growing private sector, and

maintained security. The private sector plays a key role in Somaliland, including providing the government with both political backing and the funds needed for main state-building initiatives. (Group, 2017).

The objectives of this article will be as follows:

1. To describe the effect of unemployment rate on economic growth in Mogadishu Somalia.
2. To identify the effect of inflation on economic growth in Mogadishu Somalia
3. To investigate the relationship between the currency exchange rate on economic growth in Mogadishu Somalia.

SIGNIFICANCE OF THE STUDY

This study was useful for future researchers because it was act as a source of information and also a guideline for them to follow in the subsequent studies related to same problem under investigation. The study was also useful for institutions both public and private. The Government of Somalia and the policy makers benefited from the findings of this study in terms of policies concerning monetary policy. The study highlighted the effects of monetary policy on economic growth in Mogadishu Somalia.

Methodology

Method and materials

The Article used a descriptive design by using quantitative approach The target population for this study was 60 employee of central bank in Mogadishu - Somalia. The minimum sample size is 38 respondents and was computed using the Slovin's formula which is $n = \frac{N}{1+N}$.

Table 4.1 Gender of the respondents

category	Frequency	Percentage
Male	24	63.2
Female	14	36.8
Total	38	100.0

The gender of respondents shows that the majority respondents of the questionnaire are male which is 63.2%, while 36.8% of the participants are female gender.

Table 4.2 the increase in unemployment rate it can cause the downfall of economic growth.

	Frequency	Percentage
Agree	29	76.3
Strongly agree	5	13.2
Neutral	1	2.6
Disagree	3	7.9
Total	38	100.0

The majority of the respondents are answered agree which represents 76.3%, the second groups are answered strongly agree which represents 13.2%, third groups are answered neutral which represents 2.6% and fourth groups are disagree which represents are 7.9%.

Table 4.3 Unemployment rate reduces the production due to loses of jobs to the workers

	Frequency	Percentage
Agree	18	47.4
Strongly agree	12	31.6
Neutral	6	15.8
Disagree	2	5.3
Total	38	100.0

The majority of the respondents are answered agree which represents 47.4%, the second groups are answered strongly agree which represents 31.6%, third groups are answered neutral which represents 15.8% and fourth groups are disagree which represents are 5.3%.

Table 4.4 Use of labour-intensive technology reduces the unemployment rate.

	Frequency	Percentage
Agree	23	60.5
Strongly agree	9	23.7
Neutral	4	10.5
Disagree	1	2.6
Strongly disagree	1	2.6
Total	38	100.0

The majority of the respondents are answered agree which represents 60.5%, the second groups are answered strongly agree which represents 23.7%, third groups are answered neutral which represents 10.5% and fourth groups are disagree which represents are 2.6% and fifth groups are answered strongly disagree which represents 2.6%.

Table 4.5 Monetary policy can influence the level of unemployment in the economy.

	Frequency	Percentage
Agree	22	57.9
Strongly agree	11	28.9
Neutral	1	2.6
Disagree	3	7.9
Strongly disagree	1	2.6
Total	38	100.0

The majority of the respondents are answered agree which represents 57.9%, the second groups are answered strongly agree which represents 28.8%, third groups are answered neutral which represents 2.6% and fourth groups are disagree which represents are 7.9% and fifth groups are answered strongly disagree Which represents 2.6%

Table 4.6 Accelerating investment in agriculture provides government to reduce unemploynt rate.

	Frequency	Percentage
Agree	22	57.9
Strongly agree	10	26.3
Neutral	2	5.3
Disagree	3	7.9
Strongly disagree	1	2.6
Total	38	100.0

The majority of the respondents are answered agree which represents 57.9%, the second groups are answered strongly agree which represents 26.3%, third groups are answered neutral which represents 5.3% and fourth groups are disagree which represents are 7.9% and fifth groups are answered strongly disagree Which represents 2.6%.

Table 4.7 Alow level of inflation is considered to be healthy for economy.

	Frequency	Percentage
Agree	22	57.9
Strongly agree	10	26.3
Neutral	1	2.6
Disagree	1	2.6
Strongly disagree	4	10.5
Total	38	100.0

The majority of the respondents are answered agree which represents 57.9%, the second groups are answered strongly agree which represents 26.3%, third groups are answered neutral which represents 2.6% and fourth groups are disagree which represents are 2.6% and fifth groups are answered strongly disagree Which represents 10.5%.

Table 4.8 With less inflation and sustainability improves economic well being

	Frequency	Percentage
Agree	12	31.6
Strongly agree	16	42.1
Neutral	4	10.5
Disagree	5	13.2
Strongly disagree	1	2.6
Total	38	100.0

The majority of the respondents are answered strongly agree which represents 42.1%, the second groups are answered agree which represents 31.6%, third groups are answered neutral which represents 10.5% and fourth groups are disagree which represents are 13.2% and fifth groups are answered strongly disagree Which represents 2.6%.

Table4.9 Inflation may increase the economic down turn

	Frequency	Percentage
Agree	19	50
Strongly agree	11	28.9
Neutral	5	13.2
Disagree	1	2.6
Strongly disagree	2	5.3
Total	38	100.0

The majority of the respondents are answered agree which represents 50%, the second groups are answered strongly agree which represents 28.9%, third groups are answered neutral which represents 13.6% and fourth groups are disagree which represents are 2.6% and fifth groups are answered strongly disagree Which represents 5.3%.

Table 4.10 High inflation causes economic problems.

	Frequency	Percentage
Agree	18	47.4
Strongly agree	14	36.8
Neutral	2	5.3
Disagree	2	5.3
Strongly disagree	2	5.3

The majority of the respondents are answered agree which represents 47.4%, the second groups are answered strongly agree which represents 36.8%, third groups are answered neutral which represents 5.3% and fourth groups are disagree which represents are 5.3% and fifth groups are answered strongly disagree Which represents 5.3%.

Table 4.11 The contractionary policy is utilized when the government wants to control inflation level

	Frequency	percentage
Agree	24	62.2
Strongly agree	7	18.4
Neutral	2	5.3
Disagree	4	10.5
Strongly disagree	1	2.6
Total	38	100.0

The majority of the respondents are answered agree which represents 62.2%, the second groups are answered strongly agree which represents 18.4%, third groups are answered neutral which represents 5.3% and fourth groups are disagree which represents are 10.5% and fifth groups are answered strongly disagree Which represents 2.6%.

Table 4.12 A central bank can influence interest rate by changing the discount rate.

	Frequency	percentage
Agree	21	55.3
Strongly agree	11	26.3
Neutral	2	5.3
Disagree	2	5.3
Strongly disagree	3	7.9
Total	38	100.0

The majority of the respondents are answered agree which represents 55.3%, the second groups are answered strongly agree which represents 26.8%, third groups are answered neutral which represents 5.3% and fourth groups are disagree which represents are 5.3% and fifth groups are answered strongly disagree Which represents 7.9%.

Table 4.13 Central bank plays vital role to the economic growth

	Frequency	Percentage
Agree	15	39.5
Strongly agree	15	39.5
Neutral	3	7.9
Disagree	1	2.6
Strongly disagree	4	10.5
Total	38	100.0

The majority of the respondents are answered agree which represents 39.5%, the second groups are answered strongly agree which represents 39.5%, third groups are answered neutral which represents 7.9% and fourth groups are disagree which represents are 2.6% and fifth groups are answered strongly disagree Which represents 10.5%.

Table 4.14 The central bank can either purchase or sell securities issued by the government to affect the money supply

	Frequency	percentage
Agree	12	31.6
Strongly agree	15	39.5
Neutral	3	7.9
Disagree	5	13.2
Strongly disagree	3	7.9
Total	38	100.0

The majority of the respondents are answered agree which represents 31.6%, the second groups are answered strongly agree which represents 39.5%, third groups are answered neutral which represents 7.9% and fourth groups are disagree which represents are 13.2% and fifth groups are answered strongly disagree Which represents 7.9%.

Table 4.15 Currency exchange rates provides greater certainty for exporters and importers and help the government maintain low inflation.

	Frequency	Percentage
Agree	13	34.2
Strongly agree	15	39.5
Neutral	4	10.5
Disagree	3	7.9
Strongly disagree	3	7.9
Total	38	100.0

The majority of the respondents are answered agree which represents 34.2%, the second groups are answered strongly agree which represents 39.5%, third groups are answered neutral which represents 10.5% and fourth groups are disagree which represents are 7.9% and fifth groups answered strongly disagree Which represents 7.9%.

Table 4.16 The discount rate is an interest rate charged by central bank to banks for short term loan.

	Frequency	Percentage
agree	13	34.2
Strongly agree	9	23.7
neutral	6	15.8
disagree	6	15.8
Strongly disagree	4	10.5
Total	38	100.0

The majority of the respondents are answered agree which represents 34.2%, the second groups are answered strongly agree which represents 23.7%, third groups are answered neutral which represents 15.8% and fourth groups are disagree which represents are 15.8% and fifth groups answered strongly disagree Which represents 10.5%.

Literature Review

For many centuries, monetary policy was seen as a twofold process: deciding about the money supply and deciding to print paper money to create credit. While now thought of as part of monetary authority, interest rates were not coordinated with the other forms of monetary policy. Monetary policy was generally in the hands of the executive body, which benefited from seignior age, or the power to print money Created in 1694, the Bank of England acquired the responsibility to print notes and back them with gold. With this, the idea of monetary policy began. The aim of monetary policy was to sustain the value of the currency, and print notes. In the late 18th and 19th centuries, the establishment of central banks in industrializing nations was mostly coupled with the wish to preserve the nation's peg to

the gold standard. Central banks began setting the interest rates that they charged to both their own borrowers, and other banks that required liquidity. During the 1870-1920 periods, the industrialized nations set up central banks, with one of the last being the American Federal Reserve in 1913. (Warin, 2014).

THE CONCEPT OF ECONOMIC GROWTH

Economic progress is considered as part of the utmost imperative fiscal tools for plummeting poverty as well as improving the eminence of life (DFID, 2008). Economic progress is well-defined as the rise in gross domestic product or real gross per capital and it is, however, influenced directly by labor (employment), natural resources and capital and influenced indirectly by the collective demand, institutions, economic and fiscal policies, efficiency of the government (Boldeanu& Constantinescu, 2005).According to (Jhingan, 2003), economic growth is the procedure by which the real per capita revenue of a nation rises over a long duration of the interval, and it is determined through the rise in the number of services and products manufactured within a nation. Hence, there is the much goods and improved services within a successive time period which serves as the basis of increasing prosperity through the good level of comfort of the people and reduction in the disparity of revenue delivery in a broader perspective (Akutson et al., 2018).Gross domestic product which often abstracted as economic development is appreciated as a balanced practice of raising the industrious ability of the individuals and henceforth, of rising general revenue, being categorized by greater rates of rise of per capita productivity and whole factor output, particularly labor output(Akutson et al., 2018)

Conclusion

In generally the article was established the three main objectives which are:-

- To describe the effect of unemployment rate on economic growth in Mogadishu Somalia.
- To identify the effect of inflation on economic growth in Mogadishu Somalia
- To investigate the relationship between the currency exchange rate on economic growth in Mogadishu Somalia. This study explored that %57.9. %76.3 of the respondents agreed unemployment and inflation respectively has an effects on economic growth. Also %55.3 reported that there is positive relationship between the currency exchange rate and economic growth.

Recommendations.

- Formulating and implementing monetary and exchange rate policies.
- The federal government of Somalia must tackle widespread unemployment in the country by creating job opportunities.
- Central bank should use capital controls, foreign reserve accumulation and foreign exchange management to reduce the risk of financial crises.
- Central bank of federal of Governments should use a contractionary monetary policy to fight inflation
- Central bank of the government of Somalia should be center of financial management.

Acknowledgments

The Author needs to express his gratitude to **SALAM UNIVERSITY**, especially, department of Economics and Management science.

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