THE CHALLENGES OF FISCAL AND MONETARY POLICIES IN SOMALIA AND THEIR IMPACT ON THE GROWTH RATE OF THE ECONOMY

MOHAMED OSMAN MAHAMED*
Putland State University, Somalia

*The author is an expert in economic and financial issues in Somalia and east Africa having worked with UNICEF, Ministry of finance, Somalia and also the Central Bank of Somalia

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ABSTRACT

The general objective of this study was to the challenges of fiscal and monetary policies in Somalia and their impact on the growth rate of the economy. Specifically, the study investigated the role of selective credit controls, Reserve requirement, government expenditure and taxation on Economic growth. The monetary and fiscal policies play a significant role in development financial sector to any country. Central banks use the monetary policy and fiscal policy as tool to control the financial body. This study was conducted through a descriptive study. In addition the study employed a survey research design in data collection. The sampling procedure of this study is used nonprobability sampling procedure particularly stratified sampling to sample 37 commercial banks sector, HAWALAS, insurance companies and central bank. This research employed quantitative data collection method whereby data was gathered by the use of closed ended questionnaires which are self-administered. The data collected was analyzed using the Statistical Package for the Social Sciences (SPSS) version 21 and results shown in terms of frequency distribution and percentages. A regression model was applied to determine the relationship between selective credit controls, Reserve requirement, government expenditure and taxation as the independent variables and Economic growth as the dependent variable. The study established a positive relationship between selective credit controls policy, reserve requirement policy and Government expenditure on Economic growth in Somalia while taxation showed a negative relationship. The R square shows that the 79% of Economic growth (dependent

variable) are explained by selective credit controls, reserve requirement, government expenditure and taxation policy (independent variables). The Study recommends that The central bank of Somalia should start the implementing the monetary policies and fiscal in order to enhance the financial stability, the central should draft the commercial bank regulations in Somalia and pass the parliament in order to restart its strangeness. The study also recommends that central bank of Somalia should print the new currency, because the monetary policy is all about the money demand and supply.

Key Words: *fiscal and monetary policies, Somalia, economic growth rate*

INTRODUCTION

Despite Somalia being the fourth poorest country in the world, Somalia operates one of the lowest budgets of unrecognized states; it is unfortunate that 70% of its budget goes to the security sector while only 30% goes to the development programs (World Bank economic update of Somalia, 2015). According to Collier and Hoeffler (2005), most unrecognized states are low income countries, and the costs of non-recognition grow over time as their economies further decay, this is because the resources of unrecognized states are primarily focused on security which is generally characterized by a lack of public investment in critical sector which is the main vein of development like infrastructure and education. Since its self-declaration of independence, Somalia has had 15 finance ministers, with as many as four ministers were appointed within one year. Most of these ministers happen to have no financial management background, meaning that placement is not based on sectoral competence and knowledge. Which means there is a highly need of technocrats, it is only in the developing world and in particular Somalia, where you will see a veterinary doctor who is nominated to serve as a finance minister and hence very little development and progress is achieved since the right people are not designated to the right position.

Economic growth is a major determinant in improving citizens' living standards by influencing key economic factors (Agbonlahor, 2014). Most governments use monetary policies to control rate of inflation, find a balance between BOP, reduce unemployment rate and boost rate of economic growth. Price stability is vital to a country with regards to development as well as growth of the economy since it ensures financial markets are operating efficiently (Chipote & Makhetha-Kosi, 2014). Monetary policies are some of the main drivers of the growth of GDP as it directly impacts on the key economic variables. This phenomenon has gained popularity in the recent past hence forcing most governments around the world to embrace it (Akalpler & Duhok, 2018).

Monetary policy is described as the activities undertaken by the management to manage cash moving around (Toby & Peterside, 2014). The monetary policies are orchestrated by the bodies set through the constitution as in the case of Somalia it's carried out by central bank (Onakoya, Ogundajo & Johnson, 2017). The major objective of Monetary policy is to stabilize the economy

and achieve economic growth through controlling the amount of money in circulation (Miao, 2016). This policy involves the proper management of money circulating in the economy to maintain economic stability which is vital for the country's GDP (Berlemann & Freese, 2013)

The monetary policy and fiscal policy are an important concept around the globe as its used to bring stability to the financial markets hence avoiding the issue of global financial crunch as the one witnessed from 2008-2012 which led to the huge economic losses due to collapse of huge firms worldwide (Uma, Ogbonna & Obidike, 2015). The basic goal of monetary policy is the promotion of stable prices, sustainable output and employment. In macroeconomic theory, monetary policy is anticipated to have an effect on the economy through fluctuations of interest rates, which would affect the investments which equates to the change in capital stock in the productive sector (Auer, 2014). The main aim of monetary policy concept is to ensure stable macroeconomic variables through maintaining money supply in the economy at levels which trigger economic growth (Havi & Enu, 2014).

Monetaryand fiscal policy mainly influences the private sector through four routes; interest rate, demand and supply for money, cash reserve requirements and the open market operations (Xu & Chen, 2012). OMO refer to central bank activities of controlling money circulating in the economy by purchasing and selling securities depending on whether they are aimed for contractionary of expansionary moves (Kofoed-Pihl, 2009). Cash reserves ratio is the percentage that must be deposited at the Central bank by commercial banks out of the total deposits received from the clients but they don't earn any interest as they act as a buffer in case of liquidity problem (Mbusi, 2016).

Monetary policy influences this economy through regulating money circulating in the economy (Chipote & Makhetha-Kosi, 2014). There exists a correlation linking the monetary policy and economic growth via the transmission mechanism (Sun, 2017). The transmissions include; rising account balances which generates portfolio disequilibrium. The other factor occurs through low interest rates, which influences economic growth through raising the demand for goods and services (Toby & Peterside, 2014). Monetary policies are aimed at maintaining inflation at desirable levels, maintaining BOP, increasing levels of employment thereby boosting economic growth (Agbonlahor, 2014).

Implementation of fiscal policy has significantly improved in Somalia, but there are still some challenges. Domestic revenue grew by 26.5%, from $112.7 million in 2016 to $142.6 million in 2017 driven by trade taxes. Donor grants almost doubled to $103.6 million in 2017 from $55.3 million in 2016 – a remarkable performance with 85% of the commitments being realized compared to only 50% realized in 2016. Despite the improved performance, the government is still struggling with basic challenges in its fiscal operations. Recurrent expenditures account for almost all expenditure, with capital spending accounting for just 3% of total spending in 2016 and 2017. Weak expenditure controls result into ad hoc cash rationing to ensure balanced budget

and zero accumulation of arrears hence, affecting overall budget execution. Current spending priorities focus on the security and administrative services which account for almost 90% of total spending hence crowding-out provision for the economic and social services.

Wide-ranging reforms have begun to rebuild Somalia's economy and have achieved a measure of stability and modest growth. Over several decades, Somalia endured periods of unsustainable fiscal policies, macroeconomic instability, conflict, and state dissolution. In 2012 the new Federal Government of Somalia (FGS) embarked on ambitious reforms to reestablish institutions for economic governance. The authorities have been reconstructing the core laws, regulations, and policies for taxation and management of public spending; financial inclusion, integrity, and stability; a competitive environment for business and an attractive investment climate; as well as telecommunications and other sectoral regulations. Between 2013 and 2016, real GDP averaged 2.9 percent, inflation averaged about 1 percent, and the budget deficit averaged less than 0.1 percent of GDP. This edition of the Somalia Economic Update reviews recent economic developments and the outlook for medium-term growth.

Revenue from taxes and other domestic sources grew by 29 percent. Changes in tax policies and improved tax administration helped to diversify central government revenue away from heavy reliance on customs duties and other trade taxes. The additional revenue enabled the FGS to increase spending to 5.7 percent of GDP. FGS transfers to Federal Member States (FMS) and other subnational governments increased slightly—from 9 percent of spending in 2017 to 11 percent. Otherwise, the composition of FGS spending changed little in 2018: personnel spending again accounted for just over 50 percent of total FGS spending, and capital projects received only about 4 percent of the budget.

Fiscal Policy Stance

Dornbusch et al. (2004) state that one of the main policy tools the government can use to enhance economic growth at a reasonable rate with low inflation is fiscal policy. It is a policy tool that is utilized in shortening recessions and regulating booms by adjusting the level and structure of public spending and funding. Fiscal policy stance can be termed as contractionary or tight when there is an increasing fiscal surplus or a decreasing fiscal deficit over a time period. On the other hand, fiscal policy stance can be expansionary or loose when the fiscal balance is in deficit and the level of deficit is increasing or the extent of surplus is decreasing compared to other time periods (Pailwar, 2008).

Alesina and Tabellini (2005) and Blanchard (2010) indicate that fiscal policy in developed economies has mainly been counter cyclical whereas in developing economies it has been pro-cyclical which is regarded as a suboptimal policy due to a political agency problem. Perotti (2007) also concurs with the argument that countercyclical fiscal policy, that is an expansionary fiscal stance when the economy is at a boom, would be optimal as compared to pro-cyclical

policy since it would enhance macroeconomic stability. However, Canuto (2009) and Svante (2010) have dissenting views where they argue that pro-cyclical policies are preferable especially when economies are facing economic turmoil.

Economic Growth in Somalia

Somalia's economy is slowly recovering from the 2016/17 drought. Real GDP has slowly picked up from 1.4 percent in 2017 to 2.8 percent in 2018 and 2.9 percent in 2019. While below-average rainfall reduced agricultural production in the first half of 2019, key reform implementation has improved confidence in the telecommunications and financial sectors, supporting growth in 2019, and boding well for a medium-term recovery.

Inflationary pressure is building in 2019. Inflation increased from 3.2 percent in December 2018 to 6.8 percent in July 2019 compared to 3.1 percent (year on year) in the previous year, driven by higher food prices. The stable exchange rate—the Somali shilling depreciated by 2.7 percent against the U.S. dollar in the same period—and substantial dollarization of transactions has helped to stabilize domestic prices.

Improvements in the supervisory capacity of the Central Bank of Somalia (CBS) have increased confidence in the banking sector. Year-on-year private sector credit grew by 53 percent in December 2018, while the banking sector remains liquid. In July 2019, the CBS expanded its supervisory reach to include the dynamic mobile money industry. Public finances continued to strengthen. Central government domestic revenue grew to 3.9 percent of GDP in 2018 from 3.2 percent in 2017 (figure 1). By June 2019 it was 7.2 percent above the same period in 2018. Broadening of the tax base to include services industries, coupled with improved tax administration, helped increase tax revenue, which in turn enabled the federal government to increase spending (projected at 6.9 percent of GDP in 2019). The current account deficit narrowed to 8.3 percent of GDP in 2018 from 9.0 percent in 2017 and projected to remain steady at 8.3 percent in 2019. The trade deficit remains high, at over 70 percent of GDP, reflecting structural weaknesses in the economy. Remittances and official grants continue to finance most of the trade deficit, with net inflows in 2019 projected at 28.8 percent of GDP.

More than two in three Somalis live on less than US$1.90 per day, in 2011 purchasing power parity terms (PPP). Poverty is highest and deepest among rural residents and nomads who are hard to reach given their remoteness and mobility. Most Somalis are vulnerable to a myriad of shocks resulting in losses to income, assets and food production. Poor households do not have the means to adequately cope with the negative welfare effects and their resilience is often eroded with recurrent and prolonged stretches of shocks. Adverse weather conditions to agricultural and livestock production have often resulted in higher food prices and acute food insecurity.

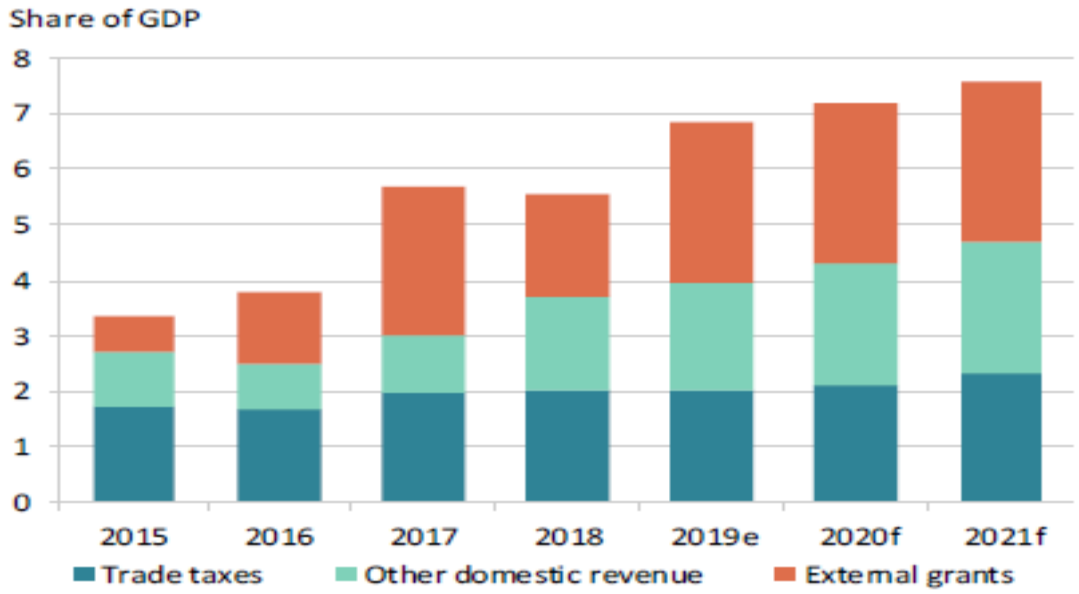

Figure 1: Somalia / Revenue mobilization by Federal Government

Sources: Ministry of Finance, FGS, World Bank (2019) and IMF (2019)

RESEARCH PROBLEM

Monetary and fiscal policies have attracted a lot of interest in past from various scholars as they are significant subjects under macroeconomic theory (Havi & Enu, 2014). The basic goals of monetary policy are the promotion of stable prices, sustainable output and employment. In macroeconomic theory, monetary policy is expected to impact on the economic conditions prevailing through the changes in the rate of interest gotten which would result in a variance in the prices of investments as well as that of the capital in the productive sector (Nwoko, Ihemeje & Anumadu, 2016). However, establishment of these policies on money and their objectives is recognized as a big factor and especially for the economists and the opinions of the general public as the integration of all the central banks since they are the ones charged with the responsibility of provision of the domestic currency to the economy as well as the application of these monetary policies set (Akalpler & Duhok, 2018). In addition, despite the implementation and frequent review of monetary policy transmission tools, the economic performance of some countries especially in the developing has been poor for years (Smith, 2014). Real GDP growth is estimated to have accelerated from 1.4 percent in 2017 to 2.8 percent Better weather enabled a large increase in annual harvests—together the yields of maize and sorghum grew by 39 percent. Animal production also rebounded. As a result, food prices stabilized, leading to a decline in inflation from 6.1 percent in 2017 to 3.2 percent. Money transfer services, transport, telecommunications, wholesale and retail trade, and other industries also enjoyed healthy growth. With the populati on growing at an annual average of 2.9 percent for the last fi ve years, real GDP growth has not been sufficient to boost per capita income. As a result, poverty remains high

and widespread. More than 69 percent of Somalis live on less than $1.90 per day, in 2011 purchasing power parity (PPP) terms. Monetary and nonmonetary poverty are higher and deeper among rural residents and nomads whose remoteness and mobility make them hard to reach. Consequently, poverty gaps are high, so that considerable resources are needed to lift them out of poverty. IDPs face unique challenges beyond extremely high poverty, including tenure insecurity and dislocati on from social networks and former livelihoods. With most Somalis vulnerable to many forms of shocks, building resilience is essential.

RESEARCH OBJECTIVES

1. To examine the role of selective credit controls policy on Economic growth in Somalia
2. To investigate the role of reserve requirement policy on Economic growth in Somalia
3. To assess the role of Government expenditure on Economic growth in Somalia
4. To determine the role of taxation policy on Economic growth in Somalia

THEORETICAL REVIEW

Neoclassical growth theory by Solow and Swan (1950), The Quantity theorem of money, liquidity preference theorem and the new classical monetary tool will form the theoretical foundation of the study.

Theory of Fiscal Policy

The theory states that the objective of fiscal policy entails redistributing income, reallocating resources as well as stabilization of an economy. The theory of fiscal policy was developed on the academic work of Musgrave (1959) and Johansen (1965). There is a general expectation that policymakers have a key goal of enhancing the social wellbeing of the general public which is dependent on several indicators depending on the government in power (Tanzi, 2006). Hence this theory asserts that fiscal policy can influence the increase or decrease in public spending depending on priorities at hand which underpins hypothesis one but it does not explicitly state whether it supports pro-cyclical or countercyclical measures. Also the theory underpins hypothesis two and three as supported by the stabilization goal of fiscal policy which aims to influence economic stability through changes in public expenditure and revenue.

Musgrave (1959) and Johansen (1965) give several assumptions that are pertinent to this theory. The first one is that the public budgeting process entails public finance decisions formulated within the public budget only. The second one is that the budgeting decisions devised by the government are based on analysis underpinned on reliable data and objective forecasts. The third one is that policy makers have the best public interests taken into consideration and lastly, the government should exercise control over economic policies in order to make feasible decisions.

The theory of fiscal policy has a few shortcomings which include; its skepticism that policymakers can be disjointed from their individual goals and attaining public welfare and finally the theory would have higher validity if stronger organizational systems are in place (Tanzi, 2006). In summary, this theory seems to adopt a normative economic perspective in the sense that it explains the measures that should be implemented as opposed to the resultant effect when fiscal policy is implemented. In essence, the theory has not explicitly explained the interaction of public revenue and public expenditure in an economy unlike other theories. In conclusion, this theory supports hypothesis one and it is aligned to objective one in the sense that fiscal policy aims to redistribute and reallocate resources in a country. Furthermore, the theory of fiscal policy supports hypothesis two in the sense that fiscal policy through one of its goals of stabilization seeks to influence the economic stability and growth in an economy.

Neoclassical Growth Theory

The theory was initiated by Solow and Swan (1956). The neoclassical growth theory is a model of capital accumulation in a pure production economy. No prices are involved as we are interested in output as a measure of real income (Ugur, 2016). The theory is built on the concept that firms acquire capital up to a point where they get reducing returns on their capital employed. Due to the absence of labour units, those available utilize the extra units of capital available (Masoud, 2013). This leads to firms abandoning capital accumulation and depending on other factors like advancement of technology which is external to the firm hence it can influence it (Smith, 2014).

In this model, the assumption made is that the function of capital is (k), Labor (L) as well as the advancement in technology. Under this model, markets are assumed to be operating under perfect a condition which implies no under-utilization of available resources (Smith, 2014). According to the theory, firms produce output using capital and labor, where these inputs are turned into outputs through constant returns to scale production function (Ugur, 2016). The theory states that when suitable monetary policies are implemented they are complimented by interest rates, increased demand for goods and services, and grants from World Bank acts as a boost to GDP and sustainable development in long-term (Ufoeze, 2018).

The Quantity Theory of Money

The theorem began in the 16th century and is associated with lead economist Henry Thornton. The theory led to the emergence of classical monetary theories which dominated the 19th century on issues pertaining to monetary theories (Laidler, 2013). The theory asserts changes in money supply lead to the changes in the pricing levels by the same proportions ceteris paribus (Tsoulfidis, 2010). The theory is founded on the assumption that the relationship between money supply and level of price changes is one dimensional (Chuba, 2015).

The theory is analyzed using Fisherian equation of exchange, MV = PY (Farooq, Hassan & Shahid, 2015). M is money supply which implies cash circulation in the economy; V represents money velocity which implies the times money changes hands; P stands for price levels in the economy. The left side of the equation is money supply side while the right hand side is the money demand side hence the left side equates to the right hand side (Tsoulfidis, 2010). However, the theory has come under so much criticism with some arguing that money velocity changes from time to time thus it can only hold in the short term (Nwoko, Ihemeje & Anumadu, 2016).

The quantity theory of money sets basis for the association between monetary policies and policies to macroeconomic variables. In the Fisher's theory, the assumption made is that money velocity is constant hence increment in money supply results to an increment in the price levels at the same proportion. This implies that money supply has effect in the short-term but doesn't have any effect in the long-term (Twinoburyo & Odhiambo, 2018). The theory is only relevant in conditions where money supply as well as government financing is not responding to public expenditures (Farooq, Hassan & Shahid, 2015). With relation to this study, the QTM expounds on the correlation linking money supply to economic growth where the amount and velocity of money in circulation influences GDP growth.

Liquidity Preference Theory

The theorem is linked to Keynes (1936). The Keynes asserted that holding liquid savings is influenced by the fact that people are unaware of what to expect in the future pertaining to the interest rates (Nwoko, Ihemeje & Anumadu, 2016). According to the theory, variations in the levels of liquidity were mainly influenced by people preferences at a particular time (Chuba, 2015). The theory reiterates that there are only two reasons for holding money which include; speculative and precautionary reasons. The former hold money and government bills depend on the anticipated interest rates. Expected rise in interest rates induces many people to hold government bills while expected low interest rates will induce people to hold their wealth in form of cash (Tily, 2016).

The theory is mainly established on the basis of market forces which are the demand and the supply. The demand for assets points towards the need for balance between holding money and bonds (Tily, 2016). This theory is a combination of both sides of the demand for money as well as the money supply side which brings about equilibrium in the money market. The theory further asserts that interest rates impact on the economic growth through; low interests have positive relationship to GDP as capital is cheap which has a direct correlation to Production capacity (Twinoburyo & Odhiambo, 2018).

New Classical Monetary Model

The new classical theory is associated with Lucas (1972). The theory establishes a structure of backing the existence of a correlation linking inflation to economic growth assuming that there is no room to be exploited by the economist pertaining to the correlation between these two economic factors (Ufoeze, 2018). This theory assumes that markets operate under perfect conditions. It further assumes that the monetary policies have no impact on the real economic variables (Tsoulfidis, 2010).

The theory is based on various assumptions which include; rationality, natural rate hypothesis, market clearing, and information imperfection. The economic equilibrium is influenced by the technological advancement and has no correlation to monetary policies (Twinoburyo & Odhiambo, 2018). According to this theory, the monetary economists believe monetary policies are vital to the sustainable economic growth as it directly impacts on the productivity (Ufoeze, 2018).

EMPIRICAL REVIEW

Miao (2016) examined the impacts of monetary policies for the financial assets of North America. This research study carried out a co-integration test, linking securities to real estate covering a 25-year period (1988-2013). The co-integration tests results revealed that external factors in North America and that money supply have a strong impact to the variables under study.

Anowor and Okorie (2016) analyzed the impact of monetary policies on the performance of GDP among West African Countries where the study collected secondary data from 1982 and 2013. The findings revealed an existence of a direct correlation linking CRR where one-unit increment in CRR caused a five unit increment in GDP. The study recommended a special attention to be given to the monetary policies due to the impact they have in maintaining economic stability.

Njiru (2016) studied impact of monetary policy on credit supply in Kenya through a descriptive research design where secondary data for ten years (2005-2015). Through the regression analysis, this research study found that CRR, OMO as well as inflation all had strong inverse correlation to capital costs. The study recommended that CBK should implement policies of monitoring how capital costs are impacted by different monetary policies and ensure the financial institutions that are critical in the economic growth operate under rules encouraging their growth.

Auer (2014) studied the effect of monetary policy shocks and FDIs among North American states using the Bayesian vector auto regression. The results revealed that monetary policies have a strong correlation to the inflow of FDIs. The study also revealed that the correlation among the study variables vary according to the category of the asset in a given time period which implies

that the countries trade denomination has a major influence with regards to the correlation of these monetary policies with the growth of the economy.

Agbonlahor (2014) analyzed the effect of monetary policies on GDP performance in England. The study employed secondary data which was collected over seventy-year period (1945-2015). The method for data analysis employed in the study was regression. Study results revealed an existence of a direct correlation linking the study variables. The study also found that the inflationary rate and money supply had major influence on GDP performance in England.

Drechsler, Savov, and Schnabl (2014) model the effects of monetary policy by affecting the external finance spread that banks pay to leverage. Easing of monetary policy leads to lower leverage costs for banks, which increases risk taking and lowers risk premia. They document that an external finance spread for banks (the funds rate – Tbill rate) moves closely with the fed funds rate. Adrian and Shin (2010, 2014) document that broker dealer leverage is endogenous and highly procyclical, owing to the way in which risk management is conducted. Adrian and Shin (2011a and 2009a) link the procyclical leverage to monetary policy, showing that tighter monetary policy tends to lower risk taking of broker dealers, leading to an increase in the pricing of risk, with associated contractionary macro consequences. In addition, Adrian, Moench and Shin (2009, 2010) link leverage management to aggregate economic activity, and show that shocks to dealer leverage impact macro activity through the pricing of risk. Adrian and Boyarchenko (2012) and Nuño and Thomas (2014) provide theories that rationalize these facts within dynamic stochastic general equilibrium (DSGE) models.

RESEARCH METHODOLOGY

The target population for this study was 16 financial institutions in Mogadishu; they include the 9 remittances (HAWALAS) and 6 commercial banks, central bank and Ministry of finance .all these institutions are licensed by central bank the total number of people is 50. The secondary data was collected Ministry reports, World Bank Reports and Journals. The researcher then reviewed all necessary data required by literature review section; the researcher cited every information captured by these sources. The design of a research gives the generalized plan as well as the arrangement of this study so devised in the mind of the researcher as to secure convincing solution to research questions (Saunders & Thornhil, 2007). The research study utilized the research design which is descriptive in nature. This descriptive design is used to explain the current situation that exists and how it affects the study variables. Descriptive study was suitable for this study, because the researcher intends to gather detailed facts by means of descriptions and is important in establishing variables and logical conclusions.

RESEARCH RESULTS

A multiple regression analysis was performed to test the association among predictor variables.

Table 1: Model Summary

Model	R	R Squared	Adjusted R Squared	Std. Error of the Estimate
1	0.889[a]	0.790	0.753	0.896

Adjusted R squared can be attributed to independent variable changes which cause the variance in the dependent variable. From the table above, the R squared value was 0.79, which implied 79% variation on Economic growth due to changes in Selective credit control policy, Reserve requirements policy, Government expenditure and Taxation at 95% confidence interval. This indicates that 79% of Economic growth, can be attributed to the foregoing variables. The study findings show a strong positive association among the study variables at an R value of 0.889.

Table 2: ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	77.84	4	19.460	21.015	0.00000
	Residual	29.632	32	0.926		
	Total	107.032	36			

a. Predictors: Selective credit control policy, Reserve requirements policy, Government expenditure and Taxation
b. Dependent Variable: Economic growth

The ANOVA statistics in the table above show a significance level of 0.00000 which indicates that the model and the data thereof can be relied upon to make conclusive inferences. The critical value (2.45from F-table) was less than the F calculated (21.015) which is an indication that the foregoing independent variables were significantly influencing Economic growth.

Table 3: Coefficients

	Unstandardized Coefficients		Standardized Coefficients		
	B	Std. Error	Beta	t	Sig.
(Constant)	3.936	0.765		5.145	0.0000
Selective credit control policy	0.741	0.236	0.646	3.140	0.0032
Reserve requirements policy	0.667	0.215	0.526	3.102	0.0035
Government expenditure	0.737	0.123	0.645	5.992	0.0000
Taxation	-0.549	0.2654	-0.442	2.069	0.0452

The overall regression model was:

$$Y = 3.936 + 0.741X_1 + 0.667X_2 + 0.737X_3 - 0.549X_4$$

Selective credit control policyhas a positive influence on Economic growth. It indicates that any unit increase in the Selective credit control policy will cause Economic growth to increase by 0.741. Increase in reserve requirements policy was confirmed to cause an increase in the Economic growth due to the positive effect by 0.667. Government expenditure showed a positive impact on Economic growth which means that it increases Economic growth by 0.737 as a result of a unit increase. In addition, taxation showed a negative impact on Economic growth which means that it decreases economic growth by 0.549 as a result of a unit increase. The significance values indicate that all the independent variables were significant as they all had a significance level of less than 0.05. The highly significant variable was Government expenditure followed by Selective credit control policy.

CONCLUSIONS

Somalia needs drastic economic reforms, particularly passing central bank act reforms, and the formation of monetary and fiscal policy committees. These will set guidelines that will enable the central bank and the Ministry of Finance to act as a watchdog of market volatility. It is also obliged, to educate people on the significance and importance of financial literacy and saving and depositing their surpluses in financial institutions and not put under mattresses. This will eventually improve investment opportunities and allow investors, households, small and medium entrepreneurs (SME'S) to get advance loans from financial institutions. This will significantly enhance the economy, create job opportunities and increase government income. It will also assist the government to determine the amount of money in circulation and thus enable control of the economic volatility.

The study established a positive relationship between selective credit controls policy, reserve requirement policy and Government expenditure on Economic growth in Somalia while taxation showed a negative relationship. The R square shows that the 79% of Economic growth(dependent variable) are explained by selective credit controls, reserve requirement, government expenditure and taxation policy (independent variables)

In nutshell, the Major challenges in the fiscal and monetary policies in Somalia include Loss of value in the country's currency, moreover the Somali shilling has only one denomination of shillings 1000 with no any other, the uncontrolled entry of dollars has led to use of dollars as the standard currency in the currency, failure to use the monetary policies to reform the currency, there is no clear system to monitor the operations of commercial banks. However much the policies are there, they are not implemented. Limited domestic revenue collection strategies, the country has limited capacity to borrow from other countries, overdependence on funding /Grants/foreign aid, the level, value and volume of trade are still low to enhance domestic taxes,

unstable exchange rates and failure to undertake massive civic education to help the citizens understand the role of taxation in the economic development process

RECOMMENDATIONS

Based on the major findings of this study, the following recommendations were made: 1) The central bank of Somalia should start the implementing the monetary policies in order to enhance the financial stability 2) The central should draft the commercial bank regulations in Somalia and pass the parliament in order to restart its strangeness. 3) The central bank of Somalia should print the new currency, because the monetary policy is all about the money demand and supply .the Somali shillings cannot be trusted anymore because there is no legal tender and it's not controlled by central bank of Somalia. 4) The general use of monetary policy such as reserve requirement and bank rate is central body of financial sector in Somalia. With these, the financial institutions become chaotic and results local financial crises.

Somalia needs to continue to build the fiscal buffers needed to provide basic services to its people. Continued efforts to broaden the tax base, enhance compliance, and reduce wasteful expenditures would increase the resources available to help meet basic needs, including in health, sanitation and water delivery, and education. Improving the efficiency of public spending and service delivery is a priority on the expenditure side. More efficient spending could be achieved by containing the large public wage bills that crowd out other critical components of public expenditure.

The government should come up with strategies and policies that will strengthen the Somalia shilling and persuade citizens to use their local money for their transactions.

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