ISSN:2229- 6247
Hamze Abdikadir Hussein et al | International Journal of Business Management and Economic Research(IJBMER), Vol 6(6),2015,313-326

Critical Analysis of the Role of Central Bank in Curbing Inflation Rates in Somaliland

Hamze Abdikadir Hussein[1]
MBA Student, Finance and Accounting,
Mount Kenya University, Kenya

Dr. Onsiro Ronald[2]
SBE Postgraduate Coordinator,
Mount Kenya University, Kenya

Ondabu Ibrahim Tirimba[3]
Lecturer, School of Business and Economics,
Mount Kenya University, Kenya

Abstract

This research was conducted to evaluate the role of central bank in curbing inflation rates in Somaliland. The objectives of this research were to determine how exchange rate stability helps curbing inflation rate, to investigate how control of money supply helps curbs inflation rates and to analyze other methods used by central bank in curbing inflation rates in Somaliland. The study has used the post Keynesian theory and monetary theory in explaining the behavior of inflation. The empirical review was guided by the objectives of the study. This study employed descriptive research design and was used a structured questionnaire to gather data. The target population of the study was comprised of 357 employees of Central Bank. A sample of 108 employees was selected from the population using stratified random sampling technique. Reliability of the instruments was tested by the Cronbach's alpha. Data was analyzed by aid of Statistical Package for Social Science (SPSS) and was presented by tables and charts. It was concluded that both money supply and exchange rate in Somaliland were good explanatory variables in explaining the changes in inflation on Somaliland economy. So it needs central bank to regulate these two variables effectively and efficiency in order to decrease the inflation rates. It was recommended that central bank should have to set a detailed plan of action with clear and transparent monetary policy objectives and also develop the ways, methods and techniques that can used to achieve these objectives. This can be used as a benchmark for measuring the progress and performance of the central bank achievements for both the government and the general public.

Key Words: Inflation, exchange rate stability, Price stability

1. Introduction

Andrew et al. (2005) define the Central bank as a national bank that provides financial and banking services for the country's government and commercial banking system, as well as implementing the government's monetary policy and issuing currency. Inflation is defined as a sustained increase in the general level of prices for goods and service it is measured as an annual percentage increase, as inflation raises every dollar you own buys a smaller percentage of a goods or services.

Central bank is a bank of commercial banks and other financial institutions. The wide scope of its activities can be more easily comprehended through three primary functions for which each central bank is responsible in its respective operation. These are: the function of monetary regulation (conduct of monetary policy), supervisory function and function of lender of last resort (Marsh et al., 2010). By the end of the 20th century the monetary policy function clearly dominated the public perception of central banking activities, notwithstanding the continuation of numerous other functions of great significance to the effectiveness of financial systems and monetary exchange. Central banks in most developed nations are institutionally designed to be independent from political interference. Still, limited control by the executive and legislative bodies usually exists (John, 1999).

According to Gallego (2002), the priority of price stability over the other policy goals seem to be politically accepted in most countries, if not appropriately mentioned in the laws governing the central bank. Gallego (2002) mentioned that price stability i.e. low and stable inflation rate provides substantial benefits to the economy. Price stability prevents overinvestment in the financial sector, which in a high-inflation environment expands to profitably act as a middleman to help individuals and businesses escape some of the costs of inflation. Price stability lowers the uncertainty about relative prices and the future price level, making it easier for firms and individuals to make appropriate decisions, thereby increasing economic efficiency. Price stability also lowers the distortions from the interaction of the tax system and inflation.

According to Ifrah (2009), the central bank of Somaliland was inaugurated in 1994 to conduct the monetary policy of the country, act as the government bank and commercial bank together. Now the central bank is celebrating its twenty years anniversary in 2014. Abdilaahi (2010) stated that the achievements of the central bank since its inauguration are very limited to that it has printed the Somaliland shillings notes for the first time in 1994.

Marsh et al. (2010) asserts that inflation affects human beings' lives and health of the economy thereby increasing prices of all products within the economy which discourages investment and results to social and political unrest more so in developing countries. The central bank is responsible for curbing inflation rates through the control of exchange rates, ensuring that the money supply is regulated and ensuring that commercial banks maintain a fixed minimum reserve requirement and a standard control of credit (Carlson, 2011).

Inflation in Somaliland has been a severe and undeniable financial problem for the sustainability of economic growth and political stability for the last decade. This huge sized problem (inflation) has been the father of many bad economic and social consequences, like the devaluation of the Somaliland shilling with regards to the dollar. The dollar has gained value with respect to the Somaliland shilling in the previous three years from Sh. 6,000 equivalent to Sh. 7,200 (SBS, 2014). This is a 20% inflation growth rate which is dangerous to a growing economy which has a lot of expectation as far as global competition is concerned.

Some of the greatest contributions of this problem are the imbalance in terms of the balance of payments since Somaliland imports are far much more than exports, lack of controlled remittances to Somaliland and constant fluctuations in exchange rates due to the lack of efficient and effective control of the fiscal policies. The Somaliland economy remains under developed in terms of infrastructure, foreign investments, educational systems and technological advancements. This and many more have contributed to the lack of international recognition of Somaliland as a sovereign country by international bodies. This issue is of paramount urgent attention and something has to be done for the economy to grow.

Studies have been conducted in Africa and the rest of the world on the role of central banks in control of inflation rates. Most of the studies have been conducted in developed nations whose inflation rates are satisfactory unlike the context of Africa which requires a total reengineering as far as inflation control is concerned. The studies that have been conducted especially in Africa have concentrated more on the treatment of symptoms and not the actual disease of Inflation. There is no study that has been conducted in Somaliland on this toxic issue. This study sought to critically analyze the role of the central bank of Somaliland in curbing inflation rates.

The general objective of this study will be the critical analysis of the role of central bank in curbing inflation rates in Somaliland. The study was guided by the following specific objectives: to determine how exchange rate stability helps curb inflation rates in Somaliland, to investigate how control money supply helps curb inflation rates in Somaliland, to analyze how reserve requirement helps curb inflation rates in Somaliland and to determine how direct credit control helps curb inflation rates in Somaliland

2. Literature Review

2.1 THEORETICAL FRAMEWORK

2.2.1 Post Keynesian theory

The Monetary Production Economy framework is the one used by Post Keynesians to analyze the capitalist economy. In this framework, nominal value matters, uncertainty is prevalent, and money is central to the working of the economic system. In this context, rationality is not individualist but social and conventions become a central anchor upon which decisions are based. This implies that psychological, social, political, and cultural factors assume a great Importance in the dynamics of the economic system. Minsky summarized these dynamics via his financial instability hypothesis, a capitalist economic system is intrinsically unstable and Business cycles are the endogenous result of the working of this system. No asymmetries or Frictions are necessary. Therefore, public policy should be very active, not only to promote Economic stability (Keynes et al., 1988).

Minsky (1975) asset that a fragile financial structure is based on expectations of price rises built in to financial positions and necessitates lender of last resort interventions to prevent financial instability. This may promote inflation under specific conditions. First, the private sector may have an incentive to fulfill its expectations by raising prices. Second by acting as the lender of last resort, the central bank makes balance sheets more liquid and, if liquidity preferences are unchanged, this will tend to promote lending activities and spending. If the productive system is in a sluggish state, inflationary pressures will be generated. Finally, price stability may also promote financial strength by making it easier for the private sector to realize its expectations. As the Schwartz Hypothesis claims, price stability is good for financial stability. However, contrary to this hypothesis, post Keynesians share the idea that the causality runs both ways. In addition, the simple fact that agents can realize their inflation an expectation does not guarantee that their financial position is strong. Their expectations may include refinancing needs and so, promote financial fragility.

2.1.2 Monetary Theory

Marx (1999) explicitly rejected the orthodox notion that barter is a socioeconomic system “well adapted to commodity exchange, suffering merely from certain technical inconveniences, to overcome which money has been cunningly devised. Marx argued, on the contrary, that the existence of “money is not the result of deliberation or agreement, but has come into being spontaneously in the course of exchange, One of the central objectives of his labor theory of value was to explain how and why this was the case--how and why money developed as an intrinsic and essential institution of capitalist commodity production and exchange. As was already mentioned, the preoccupation with Marx’s theory of value as a theory of price determination over the past one hundred years has obscured the fact that his theory of value was concerned with other, more fundamental issues than the problem of price determination.

The origin of money is to be found in the division of the product of labor, the commodity, into a

Use value and an exchange value. The development of money progresses simultaneously with the evolution of commodity production and exchange. Over time, money becomes the bond that ties the entire system of human productive relationships together in capitalist society. As Marx puts it, a monetary economy is one in which the “individual carries his social power, as well as his Bond with society in his pocket” (Marx, 1973).

2.2 EMPIRICAL REVIEW

2.3.1 Exchange stability and inflation rate

Nathan et al. (2013)’s study empirically evaluates the impact of exchange rate fluctuation on inflation targeting on the Nigerian economy. This study adopted an econometric model to test the long-run relationship between exchange rate volatility and inflation targeting on the Nigerian economy. The study used annual times series from 1970 to 2012. The findings were that both interest rate and exchange rate in Nigeria were good explanatory variables in explaining the changes in inflation on Nigerian economy.

Sebastian (2006)’s paper dealt with the relationship between inflation targeting and exchange rates. The objectives were to analyze the effectiveness of nominal exchange rates as shock absorbers in countries with inflation targeting, to investigate whether exchange rate volatility is different in countries with an inflation targeting regime than in countries with alternative monetary policy arrangements And to discuss whether the exchange rate should play a role in determining the monetary policy stance under inflation targeting. The research findings were the Countries that have adopted IT have experienced a decline in the pas-through from exchange rate changes to inflation. In many of the countries in the sample of this decline in the pass-through has been different from CPI inflation than for PPI inflation.

Christiana (2002)’s study sought to establish the relation between exchange rate and inflation volatilities by adopting a more sophisticated econometric methodology than those applied so far a bivariate GARCH model, dealing directly with the effects of conditional volatilities, which has been largely unexplored by the literature. The study found a semi-concave relation between exchange rate and inflation variances, differently from what was estimated for financial series and in line with the intuition obtained from other studies. The study innovates by trying to establish a relation between exchange rate and inflation volatilities and its implication for the monetary policy, applying a multivariate GARCH model, using conditional variances to analyze the relation between those volatilities and showing that traditional tests performed with exogenously constructed volatility series are sensitive to the criteria chosen to construct such series and do not reveal relevant features of that relation.

Michael (2013) examined the effects of interest rate and inflation rate on exchange rates in Kenya. The study used inflation rates in Percentage, interest rates in percentage and average annual exchanges rates from 2007 -2012. The study findings were that increase in interest rate is necessary to stabilize the exchange rate depreciation and to curb the inflationary pressure and thereby helps to avoid much adverse economic consequence

2.3.2 Money supply and inflation rate

Victoria (2013) carried out a study on Monetary Policy and Inflation Dynamics in Tanzanian economy. The purpose of this study was to examine to which degree inflation is a result of monetary phenomena in the case of the Tanzanian economy. The analysis was done using impulse response function on SVAR and VECM econometric models with data sets which were ranging between 1993 and 2011. The empirical results suggested that inflation in Tanzania is more of an output factor than a monetary phenomenon.

Fatukasi (2005)’s study investigated the determinants of inflation in Nigeria between 1981 and 2003. The objective was to investigation into the multi-dimensional and dynamic factors that affect inflation with the view to make appropriate recommendations to curbing it. The findings of the research were that attempts by the government to control this menace using the traditional monetary and fiscal policies have not provided a long lasting solution.

Khanat al. (2014) analyzed the effectiveness of monetary policy in controlling Inflation in Pakistan. The objective of the study was to examine the role of monetary policy to control inflation and boost economic growth in Pakistan during the period of 1970 to 2010. The findings emerging from the study were that money supply growth has been an important contributor to the rise in inflation in Pakistan during the study Period.

2.3.3 Other inflation control methods

2.3.3.1 Reserve Requirement

Shekhar and Lekshmy (2007) argue that the Central Banks may require commercial banks to hold a fraction (or a combination) of their deposit liabilities (reserves) as vault cash and or deposits with it. Fractional reserve limits the amount of loans banks can make to the domestic economy and thus limit the supply of money. The assumption is that Deposit Money Banks generally maintain a stable relationship between their reserve holdings and the amount of credit they extend to the public.

Plosser (2012) states that, there are good reasons to prefer an arrangement that provides a fair degree of separation between the functions and responsibilities of central banks and those of the fiscal authorities. The ability of the central bank to maintain price stability can also be undermined when the central bank itself ventures into the realm of fiscal policy. Imagine a situation in which public debt levels are high and rising.

2.3.3.2 Direct Credit Control

Dan (2002) carried out a study about security control in inter-bank fund transfer. The purpose of the study was to examine the function and operation flow of the electronic funds transfer process as well as its security control mechanism. The findings of the study were that functional and technical features of an inter-bank funds transfer system – SWIFT, there was existence of flaws in the security of this system, which could lead to serious problem and have substantial financial impact. The practice of using both public-key and secret-key cryptography is blamed for the poor performance of the existing public-key cipher system. The tremendous growth in the Internet and electronic commerce has created serious challenges to network security. A number of other practical attacks on such fund transfer systems have been outlined, and procedural vulnerabilities have been listed as one of the main problems (Anderson, 2001).

Ronald et al. (2008)'s study on China's Financial Conundrum and Global Imbalances found that the domestic monetary and exchange rate system was stabilized, China could then proceed deliberately to reduce excess domestic saving relative to its huge domestic investment without worrying about exacerbating near-term inflation. But to analyze desirable long-term changes in China's tax, spending, and dividend policies would be a major exercise in public finance beyond the scope of this paper.

2.4 EMPIRICAL GAPS

Nathan et al. (2013) in his study did not examine in his study other factors that cause inflation such as low productivity, concentration of Wealth and financial dualism. Also Sebastian (2006) failed to show the evidence of changes in the degree of effectiveness of the nominal exchange rate as a shock absorber since the adoption of IT monetary policy procedures has not resulted in an increase in nominal or real exchange. Victoria (2013)'s study on monetary policy and inflation dynamics did not analyze in-depth the effectiveness of monetary policy in different regimes, as well important to specify the magnitude of the response of prices due to restrictive or expansionary monetary policies to assess the effectiveness of monetary policy in stabilizing prices in particular. Fatukasi (2005) who studied the determinants of inflation in Nigeria did not remove the dichotomy on the multi-dimensional and dynamic nature of the determinants of inflation in Nigeria pose and suggested further research to continuously make recommendations to curbing inflationary tendencies in Nigeria.

3. RESEARCH METHODOLOGY

3.1 Introduction

This chapter discusses the research methodology used in this study and provides a general framework for this research. The chapter presents details of the research design, target population, sample and sampling procedures, description of research instruments, validity and reliability of instruments, data collection procedures, data analysis techniques and ethical considerations while conducting the study.

3.2Research Design

Research design is a plan for a research work, which aims at providing guidelines, which the research work is being conducted. The study employed a descriptive survey research design. Descriptive survey research design is the systematic collection of data in standardized form from an identifiable population or representative (Oso and Onen, 2009). This design was adopted for this study because it helped intensively to describe and analyze an evaluation of central bank's involvement in curbing inflation rates.

3.3 Target Population

According to Mugenda and Mugenda (2003), target population is the members of a real or hypothetical set of people, events or objects the researcher wishes to generalize the results of the research. The study was targeting a population of 357 respondents. These consists of four groups of stakeholder; the higher central bank officers in Somaliland, the employees of the bank, the Member of parliament from the finance and economic committee of the legislatives (parliament), and finally the members of the Board of Directors of the bank managers that constitute the workforce of central bank of Somaliland.

3.4 Sampling Frame

Sampling Frame is a list or set of directions for identifying all elements in a study population (Kothari, 2004). The sampling frame was collected from the Human Resource Department of central bank in Somaliland. This is shown in table 3.1

Table 3.1: Sampling Frame

S/n	Classification of the sample	Target population
1	Senior officials of the bank	3
2	Middle and Lower level staff	336
3	Members of the BOD	9
4	Members from the finance and economic committee of legislatives(parliament)	9
	Total Target Population	357

3.5 Sampling Technique and Sample Size

A sample technique is a smaller group or sub-group obtained from the accessible population (Mugenda and Mugenda, 1999). This subgroup is carefully selected so as to be representative of the whole population with the relevant characteristics. Each member or case in the sample is referred to as subject, respondent or interviewees. Sampling is a procedure, process or technique of choosing a sub-group from a population to participate in the study (Ogula, 2005). It is the process of selecting a number of individuals for a study in such a way that the individuals selected represent the large group from which they were selected. The study used stratified random sampling technique to obtain the respondents for this study.

Stratified sampling refers to a type of sampling method. With stratified sampling, the researcher divides the population into separate groups, called strata. Then, a probability sample (often a simple random sample) is drawn from each group (Kothari, 2004). Cooper and Schindler (2003) argue that a sample size of the target population can be adequate for generalization of the research findings to the study provided the sample is scientifically determined. The study used stratified random sampling method since the population is not uniformly distributed across all the strata. The sample size was108 respondents which according to Mugenda and Mugenda(2003) are more than an ideal sample of 30% of the population as recommended. Using this formula (Kothari, 2004):

$$N= \frac{Z^2 Pq + ME^2}{ME^2 + \frac{Z^2 \quad PQ}{N}} = \frac{(1.96)^2 (0.9)(0.1) + (0.05)^2}{(0.05)^2 + \frac{(1.96)^2 (0.9)(0.1)}{357}} \quad n= 108$$

Where:-

N= Population size

n= desired sample size

z=standard normal variable

p=estimated target population

q=1-p

ME=level of statistics significance

Table 3.2: Sample Size

Functional unit (Strata)	No. of Staff (Population)	Sample Size
Senior officials of bank	3	1
Middle and Lower Level staff	336	101
Members of BOD	9	3
Members from the finance and committee of legislatives.	9	3
Totals	**357**	**108**

3.6 Data and Data Collection Techniques

This research relied on both primary and secondary data. The primary data was collected by aid of interview and questionnaire methods. Interview method was used for the senior officers, Board of Directors members (BOD) and members of parliament in the Finance committee. Questionnaires were administered to the middle and lower level employee of central bank. Secondary data was collected from published materials such as Journals and central bank releases.

3.7 Pilot Testing

A pilot study is a mini-version of a full-scale study or a trial run done in preparation of the complete study. The latter is also called a 'feasibility' study. It can also be a specific pre-testing of research instruments, including questionnaires or interview schedules (Teijlingen and Hundley, 2001).The pilot study encompassed of 2 respondents who are 1% of the sample size. 1% of the sample size is ideal for the pilot test (Orodho, 2008).

3.7.1 Test for Reliability

Reliability is concerned with consistency, dependability or stability of a test (Nachmias, 1996). The researcher measured the reliability of the questionnaire to determine its consistency in testing the research instruments. The cronbach's alpha test was used to test reliability of instrument. A cronbach's alpha value of more than 0.7 is considered ideal for the reliability of instrument.

3.7.2 Test for Validity

According to Mugenda and Mugenda (1999), validity is the accuracy and meaningfulness of inferences, which are based on the research results. It is the degree to which results obtained from the analysis of the data actually represent the variables of the study. The research instrument was validated in terms of content and face validity. Validity was ascertained by ensuring that all the objective questions are included in the questionnaire and by thoroughly scrutinizing the questionnaire for content validity.

3.8 Ethical Considerations

The researcher ensured confidentiality on the part of the respondents and was ensure them right from the word go that their information was treated with a high level of confidentiality and for only research purposes. The researcher obtained consent from the respondents after explaining to them the purpose of the data collection and how the research is important both to them as individuals and the country as a whole.

3.9 Data Analysis and Presentation

Stephen (2001) defined data analysis as the process of inspecting, cleaning, transforming, and modeling data with the goal of discovering useful information, suggesting conclusions, and supporting decision-making. Analyzing information involves examining it in ways that reveal the relationships, patterns, trends that can be found within it. Data was first coded and keyed into the computer. Regression model analyze and statistical package for social science (SPSS) version 20 was used to analyze the data. After analysis, the data was presented by aid of tables and charts

4. FINDINGS AND DISCUSSSION

4.1 Introduction

This section contains the study findings and their discussion. It will consist of the background information, the relationship between exchange rate stability and inflation rates, money supply and exchange rate and the relationship between other inflationary control methods. It begins with demographic data of the respondents and then proceeds to give details of results of the collected data. Following to this, interpretations and discussion is maintained with view of the research objectives.

4.2 Background Information

4.2.1 Response Rate

The response rate was 92.6% which is ideal to be representative of the total population views.

Table 4.1: Response rate

Actual	100
Expected	108
Response rate	92.6%

4.2.2 Gender of Respondent

Male respondent's were74%, this is more than female counterparts who were 26%. This is due to the fact that most of the females are not traditionally involved in business activities and are not employed in public bureaus.

Table 4.2: Gender of Response

Response	Frequency	Percentage %
Male	74	74.0
Female	26	26.0
Total	100	100.0

4.2.3 Age of Respondents

On the age of respondents, 20% were 16-25years old, 64% of respondents were having an age between26-35. 10% of respondents were 36-45 aged, the remaining 10% were 45 years and above. Most of the respondents were aged 26-35 (64%) and the smallest numbers of the respondents were aged 45 and above (10%). This shows that most of the workers in the central bank are in the active age group, this they will possibly work for the organization in a long period before retirement.

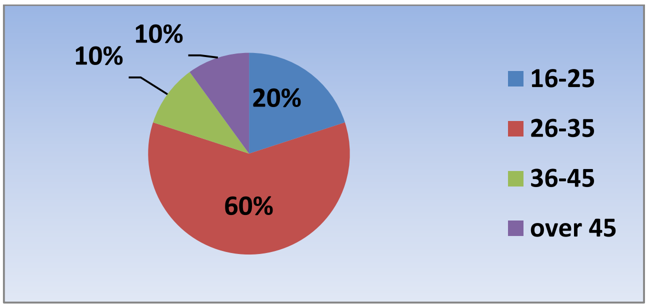

Figure 4.1: Age of Respondents

4.2.4 Education level of respondents

With reference to the educational level of the respondents, 8% were those who had completed high school, around 70% of the respondents were having first degrees while 22% of respondents had Masters degrees & above. This implies that the respondents are qualified to answer the study questionnaire.

Table 4.3: Education level of respondents

Response	Frequency	Percentage %
secondary level	8	8.0
Graduate Degree	70	70.0
Master Degree	22	22.0
Total	100	100.0

4.2.4 Work Experience of the Respondents

Table 4.4 shows that 10% of the respondents had work experience of less than 2 years, 40% of the respondents had a work experience of 3 to 4 years, and 20% of the respondents had an experience of 5 to 6 years while 30% of the respondents have a work experience of above 6 years. This implies that the majority of the respondents have an enough work experience for which they can handle the operations of the bank, and this are able to effectively and efficiency answer the study questionnaire with expertise.

Table 4.4: Work Experience of respondents

Response	Frequency	Percentage %
less than 2	10	10.0
3-4 yrs	40	40.0
5-6yrs	20	20.0
6 above	30	30.0
Total	100	100.0

4.3 EXCHANGE RATE STABILITY AND INFLATION RATE

4.3.1 Dollarization and Monetary policy

The study sought to know whether dollarized economy in Somaliland negatively affects the conduct of monetary policy by the central bank. 40% and 30% of the respondents strongly agreed and agreed respectively that the use of dual currency in saving deposits, consumption and investments in the country is constraint for the use of central bank monetary policy instruments, 20% and 10% of the respondents were Neutral and disagreed respectively. The above findings agree with those of Christiana (2002) who found out that dual currency is constraint for the use of central bank's monetary instruments.

Table 4.5: Dollarization and Monetary Policy

Response	Frequency	Percentage %
Strong Agree	40	40.0
Agree	30	30.0
Neutral	20	20.0
Dis agree	10	10.0
Total	100	100.0

4.3.2Exchange Rate Stability and Inflation Rates

The researcher sought to know whether exchange rate stability helps curb inflation in Somaliland. 30% and 50% of the respondents strongly agreed and agreed respectively while 20% and 10% were Neutral and disagreed respectively that exchange rate curbs inflation rates in Somaliland. These findings are in line with those of Nathan et al. (2013) who also found out that both interest rates and exchange rates in Nigeria were good explanatory variables in explaining the changes in inflation on Nigerian economy and that the control of either interest rates or exchange rates would result to the eventual control of inflation.

Table 4.6: Exchange Rate Stability and Inflation Rates.

Response	Frequency	Percentage %
Strongly Agree	30	30.0
Agree	50	50.0
Neutral	10	10.0
Disagree	10	10.0
Total	100	100.0

4.3.3 Money Market and Monetary Policy

The study question on the lack of well-functioning money market in Somaliland being a constraint to the development of an effective monetary policy by the central bank,46% and 8% of the respondents strongly agreed and agreed respectively, 20% and 6% of the respondents were Neutral and disagreed respectively. Many respondents blamed the lack of an effective monetary policy as attributed to the lack of a functioning money market.

Table 4.7: Money Market and Monetary Policy

Response	Frequency	Percentage %
Strongly Agree	46	46.0
Agree	28	28.0
Neutral	20	20.0
Disagree	6	6.0
Total	100	100.0

4.3.4 Floating Exchange Rate and Inflation

66% of the respondents believed that floating exchange rate were causing inflation while 34% on the contrary. These findings are supported by Michael (2013) whom in his literature concluded that one of the effective ways to reduce or eliminate this inflationary tendency is to fix one's currency. Michael (2013) pointed out that, a fixed exchange rate acts as a constraint that prevents the domestic money supply from rising too rapidly.

Table 4.8: Money Supply and Inflation

Response	Frequency	Percentage %
Strong Agree	70	70.0
Agree	10	10.0
Neutral	10	10.0
Disagree	10	10.0
Total	100	100.0

4.4 MONEY SUPPLY AND INFLATION RATE

4.4.1 Money Supply and Inflation

Table 4.8 findings on money supply and inflation reveal that 70% of respondents strongly agree that money supply influence inflation, 10% agreed, 10% were Neutral while as that 10% disagreed. This study findings are the opposite of what Victoria (2013) found that, 'inflation in Tanzania is more of a real factor than a monetary phenomenon.' However, Khanet al. (2014) supports the study findings that by arguing that, monetary policy is powerful tool in curbing inflation and boosting economic growth.

4.4.2 Central Bank Independence and Monetary Policy

30% of the respondents strongly agreed that central bank is independent when implementing monetary policies while 50% agreed on the contrary, 10% were neutral to this decision while 10% disagreed. Central bank of Somaliland was therefore assumed to be independent when making monetary policies.

Table 4.9: Central Bank Independence and Monetary Policy

Response	Frequency	Percentage %
Strong Agree	30	30.0
Agree	50	50.0
Neutral	10	10.0
Disagree	10	10.0
Total	100	100.0

Table 4.10: Monetary and Fiscal Policy

Response	Frequency	Percentage %
Strong Agree	50	50.0
Agree	20	20.0
Neutral	10	10.0
Disagree	20	20.0
Total	100	100.0

4.4.3 Monetary and Fiscal Policy

On the monetary and fiscal policy relationship, 50% and 20% of the respondents strongly agreed and agreed respectively 10% and 20% of the respondents were Neutral and disagreed respectively. The study findings are supported by the works of Fatukasi (2005) who strongly purported that central banks have the primary responsibility of ensuring stability in the monetary and fiscal policies of their respective countries.

4.5 OTHER INFLATION CONTROL METHODS

4.5.1 Reserve Requirements and Direct Credit Control

In total 80% of the respondents agreed that minimum reserve requirement and direct credit control were the other new methods used by central bank of Somaliland to regulate inflation rates in the country.

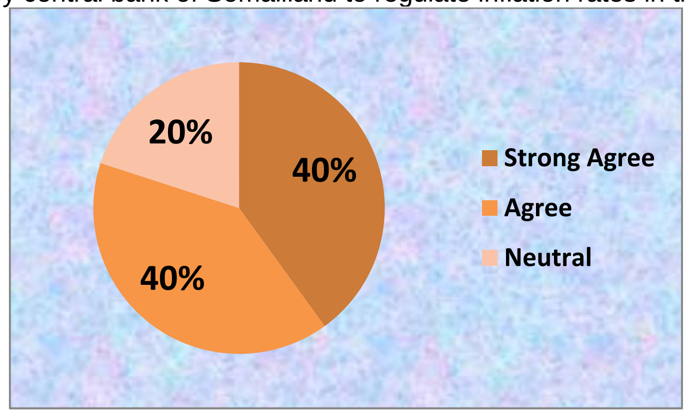

Figure 4.3: Reserve Requirements and Direct Credit Control

4.5.2 Central Bank and Islamic laws Enactment

On the enactment of central bank Islamic laws towards the control of inflation rates in Somaliland, 50% respondents agreed that the laws had been enacted while 40% were neutral, 10% strongly agreed. However, a study by Akbar (2011) makes it a dilemma on whether these Shariah-based Islamic banking laws could help curb inflation since from his study he found out that the Central Bank of the Islamic Republic of Iran has not had an acceptable progress in attaining the aims of monetary policy.

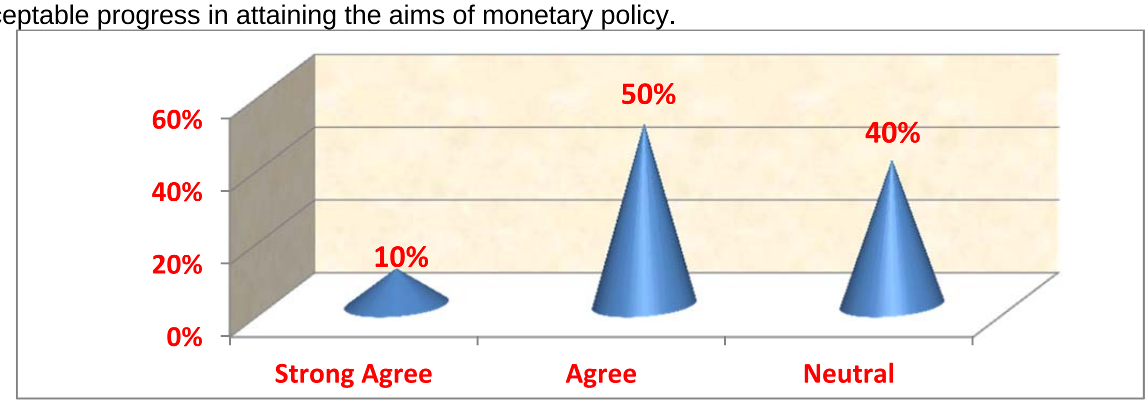

Figure 4.4: Central Bank and Islamic laws Enactment

4.5.3 Deposit and Withdrawal Limit

On the question whether the central bank of Somaliland regulates deposit and withdrawals held by commercial banks in the country, 67% of respondents disagreed while 23% agreed.10% were neutral to the decision .Many respondents believed that central bank doesn't regulate deposit and withdrawal and this might be the reason attributes to the high inflation rates in Somaliland .

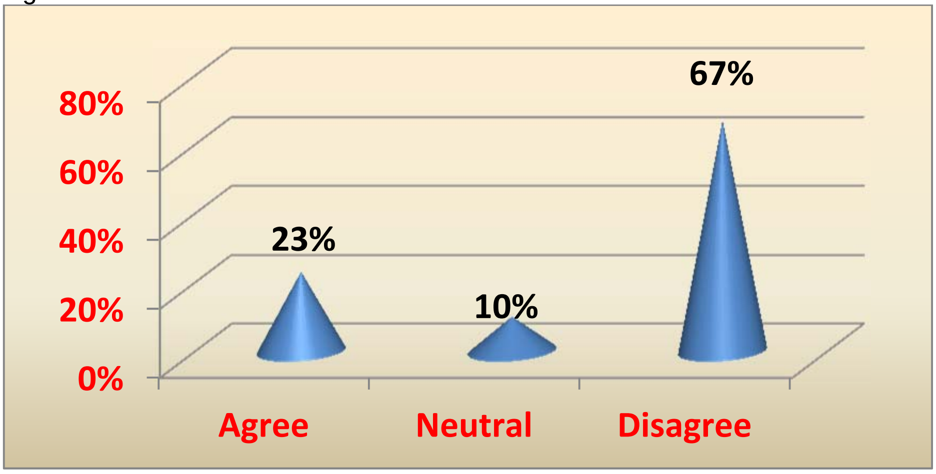

Figure 4.5: Deposit and Withdrawal Limit

4.5.4 Commercial Bank's Credit Control

On the control of credit facilities offered by commercial banks in Somaliland, 75% of respondents disagreed that the credit facilities are controlled, 10%were neutral and 15% agreed .This shows that the central bank of Somaliland most likely doesn't regulate credit facilities offered by commercial banks and this is one of the possible reasons for the existent inflation rates in the country.

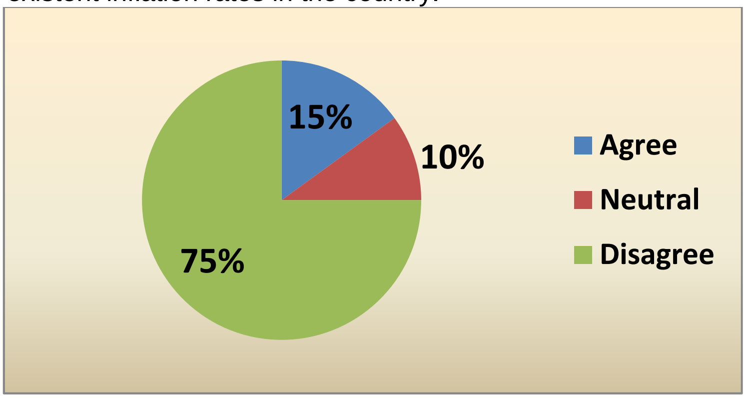

Figure 4.6: Commercial Bank's Credit Control

5. Conclusions, Summary And Recommendations

5.1 Introduction

In this chapter, the researcher tries to summarize the above major findings of the study focusing on the main theme of the paper. At the end, the study draw a conclusion based on the analysis of the available data. Finally on the basis of the conclusions, the researcher recommends some points that enable to minimize and solve the critical analysis of the role of central bank in curbing inflation rates in Somaliland and would disclose the current prospects of the central bank of Somaliland.

5.2 SUMMARY

5.2.1 Exchange Rate Stability and Inflation

The researcher findings were that both interest rate and exchange rate in Somaliland were good explanatory variables in explaining the changes in inflation on Somaliland economy. There is no clear and transparent functional monetary policy for which the central bank of Somaliland has developed, since its inauguration in 1994 and works as a government treasury only, due to the following challenges and constraints faced the bank including:

Somaliland shilling is not officially being used as legal tender money throughout the borders. Having this money functioning in limited areas, on that specific limited area the money gets high level of concentration which, on the other hand, increases the volume of money in the market, and consequently leading to inflation.

The central bank has no enough financial capacity to formulate and implement a functional monetary policy as the current capital of the bank is very low because the major sources of finances for the bank are limited to the service charges and commissions that it takes from the deposits and financial transactions of the tax revenue collected by the government. The government on the other hand increases the financial burden of the central bank by always taking and transferring debts to and from the central bank.

Remittance companies injecting too much dollars in the pockets of the consumers increase the purchasing power of the people and their demand of goods and services, while there is no simultaneous increase in supply of goods and services.

5.2.2 Money Supply and Inflation rates

Unlike the known functions of central bank, the Somaliland central bank's functions are so limited up to extent. It only renders some very basic activities while those important ones are left behind. The seven functions of central bank mentioned in chapter two (literature review) are not partially rendered by Somaliland's central bank in comparatively speaking. The main function done by it is that, it acts as a treasury for the government and pays salaries to the limited governmental employees. Even though, it was told by some central bank officials through the interview, that they sometimes undertake monetary policy, like collecting the Somaliland shilling and injecting dollar when there is abundance of Somaliland shilling and scarcity of dollar respectively and vice versa. However, these activities are not even 10% up to the normally needed level. To conclude this paragraph, we can say that Somaliland's central bank is just a pronoun of its position.

For the sake of money devaluation caused by the inflation, some parts of Somaliland shilling are already got out of the market and no more in use. According to the researchers' long time experience, there had been some times where average families were used to take Sl. Sh. 5000 as a bill of a day while, now, even Sl. Sh. 30.000 sometimes may not be enough as a bill of the same family in a day.

For this reason, the central bank, recently, only prints some specific parts of the money those are still useful within the market like 500 (the highest note) shilling and 100 shilling. This issue indirectly determines the inflation, for the fact that when there is no fraction of money so as to buy less valued commodities such as the chewing gum traders, for simplicity, sell these commodities for the least notes available which is for example 100 shilling. And also they do this by avoiding the heaviness of the money i.e. when the money is devaluated; you need to have more notes so as to buy, and more notes increase the weight of the money.

Also the researcher found that Lack of recognition of the republic of Somaliland by the international community hinders the development and strengthening of government institutions including the Central Bank. Due to absence of recognition, the central bank has no access to many opportunities that other banks in the rest of the world have including the technical and capacity building, financial supports, and debt facilities received by the recognized central banks. This has left the central bank of Somaliland isolated from the cooperation of its counterparts and other financial organizations such as IMF (International Monetary Fund) and the World Bank.

5.2.3 Other Inflation Control methods

Reserve requirement and direct credit control are the other methods that researcher used to investigate to control inflation rates so the researcher found that the technical and administrative capacity of the central bank is also poor and hampered the development of efficient and functional monetary policy by the central bank. Which stated that they don't used the methods to control inflation for the sake of knowledge. The highest decision making body of the central bank is currently inefficient and has not yet taken any actions for strengthening and modernizing the central bank operations. As a result the information technology of the central bank is very poor and no central bank reform has been made for improving the services to be provided by the central bank of Somaliland.

The Somaliland economy is dominated by the use of US Dollar currency; the prices of goods and service are set based on US Dollar currency and the government of Somaliland implicitly allowed the use of this foreign currency along with the Somaliland Shillings. Most of the saving and deposit investments are made using US Dollar currency and this has made difficult for the central bank to interfere the control the exchange rate for achieving price stability and also hinders the central bank to control the money supply in the markets.

The current opportunities of the central bank of Somaliland from the recently enacted central bank law and Islamic banking law are that: the central bank law will provide the legal power to the central bank authorities for carrying out their duties as per the law, this law also, makes the central bank to be the only monetary authority in the country that will license and regulate the other banking and financial institutions. The Islamic banking law will pave the way for creation of Islamic banks in the in the country which will speed up the economic growth of the country, and will create an environment for which the central bank can exercise its power because well-functioning monetary policy requires: well-functioning financial system, otherwise effective monetary policy transmission will be difficult. And this Islamic and other commercial bank helped to sort methods that international banks used as standard and will bring it to minimize the inflation rates which hamper the economic growth of Somaliland.

5.3 CONCLUSIONS

5.3.1 Exchange Rate Stability and Inflation Rates

In line with exchange rate, the researchers revealed that majority of the respondents who derive their exchange rate in the markets agree that exchange rate fluctuations cause inflation rate. This is true as is in line with the findings of researcher findings were that both interest rate and exchange rate in Somaliland were good explanatory variables in explaining the changes in inflation on Somaliland economy.

Inflation in Somaliland were caused by these two variables as well as other factors not included in the Therefore, efforts were geared towards curbing inflation should not just focus on interest rate and exchange rate policies but equally on those variables that are intertwined with them . The researcher therefore concluded that there seems a direct relationship between exchange rate and inflation.

5.3.2 Money Supply and Inflation Rate

The research findings put it that the money supply The information about the amount and the number of times money is printed and supplied by the central bank is not retrieved from the concerned bodies (like central bank) for the fact that they call such information as a sensitive and declared that they will not publicize. However, some other independent and trust worthy bodies mentioned the number of times money is printed (the amount is yet unknown

Also the study revealed that for the sake of money devaluation caused by the inflation, some parts of Somaliland shilling are already got out of the market and no more in use. According to the researchers' long time experience, there had been some times where average families were used to take Sl. Sh. 5000 as a bill of a day while, now, even Sl. Sh. 30.000 sometimes may not be enough as a bill of the same family in a day. The respondents commended that central bank of Somaliland should use monetary and fiscal policy to decrease inflation rates and increase economic growth and this brings for their continued support to employment creation through offering self-employment to the people, availing market for their output, security and improved standards of living.

5.3.3 Other Inflation Control Methods

It was also concluded that reserve requirement and direct credit control are the other methods that researcher used to investigate to control inflation rates so the researcher found that the technical and administrative capacity of the central bank is also poor and hampered the development of efficient and functional monetary policy by the central bank.

This brings that most respondents agree that these two methods will help central bank to decrease inflation rates because Somaliland economy is dominated by the use of US Dollar currency; the prices of goods and service are set based on US Dollar currency and the government of Somaliland implicitly allowed the use of this foreign currency along with the Somaliland Shillings, so the study concluded that to strength the currency of Somaliland shilling and using methods to control inflation rates will helps to increase the efficiency and effectiveness of central bank in order to make a computations with the other international bank and reach their standard.

5.4 RECOMMENDATIONS

5.4.1 Policy Recommendations

The central bank should have to set a detailed plan of action with clear and transparent monetary policy objectives and also develop the ways, methods and techniques that can used to achieve these objectives. This can be used as a benchmark for measuring the progress and performance of the central bank achievements for both the government and the general public

The government of Somaliland should strengthen its long-term quest of recognition from the international community as this would allow the central bank to start international relations to other central banks in the rest of the world and other regional and international financial organizations to grasp a comparative advantage from such kind of relations.

Skilled human resource is very crucial for formulating effective and efficient monetary policies. Therefore, the central bank should promote the Recruitment and retention of knowledgeable staff, employees' incentives like continues/required training, promotion, satisfied and competitive salaries, bonuses, rewards etc, which will increase their morale, encourage their activities and regulate the qualified staff rather than shifting to private sectors. Since we live in 21st century: the era of information and new technologies which make our life much easier than ever and ease our work and make it more efficient, effective, less cost and save time, the government should implement and improve the application of IT and computerized system for all services provided by the central bank to dare with creating new commercial banking sectors which still absent from the Somaliland banking, which will also help the public bank to work more efficiency. Civil society also should make an account to the central bank and realize that central bank of Somaliland works effectively and efficiency.

5.4.3 Recommendations for further research

There should be further researchers on the other methods and techniques used by central banks to curb inflation rates in Somaliland and also a study on the possible causes of inflation in Somaliland so as to understand the root cause of inflation and how it can be killed whit young.

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