MONETARY POLICY AND ECONOMIC GROWTH: THE CASE OF ZANZIBAR

MONETARY POLICY AND ECONOMIC GROWTH: THE CASE STUDY OF ZANZIBAR

By

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A Dissertation Submitted in Partial Fulfilment of the Requirements for Award of the Degree of Master of Science in Accounting and Finance (Msc A&F) of Mzumbe University

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CERTIFICATION

We the undersigned, certifies that he has read and hereby recommends for the acceptance by the Mzumbe University, dissertation titled Monetary Policy Instruments and Economic Growth, in partial fulfilments of the requirements for the award of Master of Science in Accounting and Finance of Mzumbe University.

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DECLARATION

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I, Juma Simai Makame**,** declare that this dissertation is my own original work and that it has not been presented and will not be presented to any other university for a similar or any other degree award

Signature: ----------

Date ----------

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DEDICATION

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ABBREVIATIONS

AFCP	Annual Finance and Credit Plan
AIC	Akaike Information Criterion
BoT	Bank of Tanzania
CBN	Central Bank of Nigeria
CEOs	Chief Executive Officers
CPI	Consumer Price Index
EACB	East Africa Currency Board
ER	Exchange Rate
FEP	Foreign Exchange Plan
GDI	Gender Development Index
GDP	Growth Domestic product
GNP	Growth National Product
H1	Alternative Hypothesis
HDI	Human Development Index
Ho	Null Hypothesis
HPI	Human Poverty Index
IFME	Interbank Foreign Exchange Market
INTRAT	Interest Rate
IR	Inflation Rate
MKUZA	Mkakati wa Kupunguza Umasikini Zanzibar
MPC	Monetary Policy Committee
MPS	Monetary Policy Statement
MRR	Minimum Rediscount Rate
MS	Money Supply
NBFIS	Non-bank Financial Institutions
OLS	Ordinary Least Square
ZSGPR	Zanzibar Strategy for Growth and Reduction of Poverty Reduction

REER	Real Effective Exchange Rate
SIC	Schwartz Information Criterion
SMR	Statutory Minimum Reserve
SPI	Sensitive Price Index
SPSS	Statistical Package for Social Sciences
SVAR	Structural Vector Autoregressive
UK	United Kingdom
VAR	Vector Autoregressive
WPI	Wholesale Price Index
ZIP	Zanzibar Investment Policy
ZIPA	Zanzibar Investment Promotion Authority

ABSTRACT

The role of monetary policy and economic growth in Zanzibar is not clear and there is dearth information pertaining with the impact of monetary policy on Zanzibar economic growth. The purpose of the study was therefore to investigate the impacts of the monetary policy instruments and economic growth of Zanzibar. The study focused on identifying the contribution of monetary policy in Zanzibar economic growth, determine the relationship between monetary policy instruments and economic growth, identify challenges encountered during the implementation of monetary policy objectives and also the study tested the null hypothesis which is ' *the monetary policy instrument significantly influences the economic growth of Zanzibar*'.

The study investigated the impact of monetary policy in Zanzibar economic growth on selected macroeconomic variables between 2000 and 2013. Both empirical and theoretical techniques used to investigate the impacts of monetary policy instruments and economic growth of Zanzibar and concluded that according to questionnaires returned from the respondents the result showed that not only there is great impacts and contribution of monetary policy instruments and economic growth of Zanzibar but also accepted the null hypothesis which is '*monetary policy instruments significantly influences the economic growth of Zanzibar'*. However on the other hand, from the empirical evidence we conclude that there is a little impact and contribution of monetary policy instruments and economic growth of Zanzibar and also rejected the null hypothesis of the study.

The study also described the different challenges that affect the monetary policy authority in implementation of their activities and suggest the ways of solving that challenges in order to solve those challenges as the result may contribute a lot in Zanzibar economic activities for poverty reduction and sustainable development.

Furthermore, the study described the recommendation that has been recommended by the researcher for the purposes of improving the economic growth of Zanzibar by using the different monetary policy variables, among that recommendation includes.

Monetary policies should be used to create a favourable investment climate by facilitating the emergency of market based interest rate and exchange rate regimes that attract both domestic and foreign investments, creates jobs and promote industrialization. In order to strengthen the financial sector, the Central Bank has to encourage the introduction of more financial instruments that are flexible enough to meet the risk preferences and sophistication of operators in the financial sector.

For monetary policy to lead to sustainable economic growth efforts must be made to manage periodic volatility (unpredictability) in interest rate, money supply, exchange rate and inflation, while in the long run the stability of the value of domestic currency must be assured through effective exchange rate management regime.

The study completed by expressing the overall conclusion of the study which explained the impact of monetary policy instrument and the economic growth of Zanzibar.

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CHAPTER ONE
INTRODUCTION

1.1 Introduction

This chapter provides background information of the study and describes the history, nature of the monetary policy as well as the economic growth. It highlights the statement of the research problem, research objectives and the research questions. The chapter ends up by describing the significance of the study, pointing out how this study is important to knowledge contribution, policy makers and managerial implications.

1.2 Background of the Study

Monetary policy is a framework commonly used by central banks, currency boards, and/or monetary authorities to determine the size and rate of growth of money supply, which in turn affects real output, inflation and interest rates. Its ultimate objective is to attain price stability conducive to sustainable economic growth (BoT, 2011)

The primary objective of the Bank is to formulate and implement monetary policy, directed to the economic objective of maintaining price stability, conducive to a balanced and sustainable economic growth. To achieve this objective, the Bank of Tanzania is required to ensure a steady and acceptable rate of increase in the money supply; an appropriate rate of increase in domestic bank credit expansion that will not provide pressure on productive resources and that must be consistent with the money supply objectives (BoT, 1995)

In addition BoT, obliged to ensure that there is a realistic market determined interest rates, adequate level of foreign reserves to enable the Bank of Tanzania to intervene in the foreign exchange market from time to time to smoothen out reversible short-term fluctuations of Tanzanian Shilling exchange rate, to meet import requirements, external obligations, and unexpected foreign exchange requirements in times of crisis, a

relatively stable exchange rate for the national currency; and protection and development of sound and well managed banking institutions.

In a nutshell, monetary policy is describe as a combination of measures designed to regulate the value, supply and cost of money in an economy, in consonance with the expected level of economic activity. For most economies, the objectives of monetary policy include price stability, maintenance of balance of payments equilibrium, promotion of employment and output growth, and sustainable development. These objectives are necessary for the attainment of internal and external balance and the promotion of long-run economic growth (Folawewo and Osinubi, 2006).

1.2.1 Evolution and Governing of Monetary Policy in Tanzania:

In Tanzania, monetary policies are governed by the Bank of Tanzania (BoT) Section 7 (1) of the Bank of Tanzania Act of 2006 has entrusted with the responsibility of formulating and implementing monetary policy directed at achieving and maintaining stability in the general level of prices, to foster the liquidity, solvency and proper functioning of a stable market. In general monetary policy objectives are concerned with the management of multiple monetary targets including price stability, promotion of growth, achieving full employment, smoothing the business cycle, preventing financial crises, stabilizing long-term interest rates and the real exchange rate (Kalm, 2006)

Since the inception of the Bank of Tanzania in 1966 monetary policy has undergone profound changes. The 1960s and 1970s were broadly characterised by direct monetary controls, marked by stringent exchange controls and directed credit to priority sectors. The Bank had little control over monetary policy. The Annual Finance and Credit Plan (AFCP), supported by a system of administered interest rates, were devised as the main instruments of monetary policy from 1971/72. Similarly, the Foreign Exchange Plan (FEP) was devised to control the use of foreign exchange in accordance with national

priorities. The Bank monetary operations were predominantly based on government directives. There was neither capital nor money markets (BoT, 2011)

There are various frameworks that a central bank can use to conduct monetary policy. They include monetary targeting, inflation targeting, foreign exchange targeting and interest rate targeting. Since 1993, the Bank has been implementing monetary policy using a monetary targeting framework, with reserve money being the operational target and broad money an intermediate target. This framework was chosen mainly due to the low level of development of the financial markets and limited high frequency data on the real economy. These constraints together with structural rigidities in the economy limit the efficacy of other monetary policy frameworks (BoT, 2011)

The implementation of the monetary targeting framework uses the reserve money programming methodology. This methodology is based on the simple quantity theory of money. It involves forecasting of factors affecting the supply and demand for reserve money, the mapping of intermediate target, and design of monetary policy to ensure consistency with policy targets. Prior to 2006, the monetary policy targets were set using end of period reserve money stocks. This led to concentration of monetary policy actions at the end of a quarter causing sharp fluctuations in interest and exchange rates particularly during the program assessment quarters, with a view to distribute policy actions more evenly, average reserve money was adopted in 2006 (BoT, 2011)

The Bank of Tanzania sets annual monetary aggregate targets and publishes them in the Monetary Policy Statement (MPS). The MPS together with its mid-term review are submitted to the Minister of Finance who in turn presents them to the Parliament. The Monetary Policy Committee (MPC) of the Board of Directors of the Bank of Tanzania monitors the implementation of the monetary policy on a monthly basis consistent with the ultimate objective of price stability. Meanwhile, the Liquidity Management Committee meets weekly to review the implementation of the MPC decisions, while the

Bank's Technical Committee meets daily to review liquidity developments. The decisions of the MPC are also shared with the Chief Executive Officers (CEOs) of banks and the general public (BoT, 2011)

1.2.1.1 Monetary policy instruments:

The mid-1990's marked a major turning point in the Tanzania's monetary policy landscape. Given a decade of economic and financial sector reforms, Tanzania adopted a more focused approach to monetary policy with a single objective of price stability as mandated in the Bank of Tanzania Act of 1995. In the conduct of monetary policy, the Bank of Tanzania uses the following indirect monetary policy instruments. (BoT, 2011)

- **Open market operations:** This refers to sale and purchase of government securities in the money market. Prior to the introduction of the open market operations, government budget deficit financing was inflationary as it was directly financed by the Central Bank. Government securities were first auctioned for budgetary financing in 1993/94. Treasury bills with maturities of 35 days and 91 days were introduced in 1993, whereas those of 182 and 364 days were introduced in 1994, partly for liquidity mop-up. To increase the effectiveness of monetary policy, the Bank started to set aside proceeds from sale of 35, 91-days Treasury bills sales for liquidity management purposes. In order to extend the maturity profile of the security papers, Treasury bonds of 2-years maturity were introduced in 1997 and those of 5-years, 7-years and 10-years maturity were introduced in 2002 for deficit financing and liquidity management (BoT, 2011)

- **Repurchase agreements:** In 2007, the Bank also introduced repurchase agreements (Repos) which are used to fine tune liquidity in the banking system with maturity ranging from 1- day to 21-days (BoT, 2011)
- **Discount window and Lombard facility:** These are standby credit facilities that were introduced in 2003 to provide liquidity to commercial banks in need, to meet short-term obligations (BoT, 2011)

- **Foreign exchange market operations:** The Bank introduced foreign exchange auctions in July 1993. The auction system was replaced by the Interbank Foreign Exchange Market (IFEM) in June 1994. The IFEM is a wholesale market which determines the Tanzanian Shilling exchange rate. Players in this market are the Bank of Tanzania and commercial banks. The Bank participates in the market mainly for liquidity management and to smoothen transitory fluctuations in the exchange rate (BoT, 2011)

- **Statutory minimum reserve requirements:** The statutory minimum reserve (SMR) instrument was actively used, especially, in the second half of the 1990s, to control excess liquidity in the economy. The composition of SMR has been changing over time, depending on the liquidity situation in the economy. For instance, SMR was maintained at all deposit liabilities, excluding foreign currency deposits and vault cash as part of SMR before 1997. Thereafter, cash in vaults and foreign currency deposits have also been considered, though at varying degrees. To enhance financial intermediation in the economy and improve the liquidity position of commercial banks, banks have as well been allowed, for example, to hold up to 50 percent of their SMR requirement in Treasury bills (for example, in September 1995 to April 1996) or use 50 percent of vault cash in the computation of SMR, since 1998. In practice, an attempt to manage the liquidity overhang brought about by consistently high budget deficits (financed largely through central bank borrowing), the gold purchase and the debt conversion schemes, BoT raised the minimum reserve ratio from 3 percent to 4 percent in June 1993 and further to 10 percent in December 1993. The ratio was raised further to 12 percent in September 1994 and then to 15 percent in March 1995 and to 18 percent in September 1996. Later, given the liquidity position in the financial system, the minimum reserve ratio was lowered to 12 percent in September 1997, and further down to 10 percent since November 1997. In 2009, the Bank introduced reserve requirements on central government deposits

of 20 percent and abolished acceptance of 50 percent of vault cash as an eligible component of the minimum reserves in order to limit the liquidity impact of the idle central government balances in commercial banks (BoT, 2011)

- **Moral suasion:** The Bank uses moral suasion which is a gentlemen's agreement to influence monetary policy. This instrument has been used mainly through regular meetings with the stakeholders in the financial sector. For instance, the Bank organizes bi-annual conferences of financial institutions in which members deliberate on key issues of relevance to the financial sector (BoT, 2011)

So far significant achievements have been made in the conduct of monetary policy, particularly in the period 1995 to 2010. In general, monetary policy has been considerably successful in Tanzania, as reflected by a remarkable decline in inflation coupled with the high rate of economic growth. The progress was occasioned by, among others, prudent monetary policy pursued by the Bank of Tanzania to support macroeconomic objectives of the Government. Real GDP grew at an average rate of 6.0 percent during 1995 to 2010, compared with the growth of 2.3 percent during 1978 to 1994, while inflation decelerated to an average rate of 10.0 percent from 27.6 percent recorded in the period 1978 to 1994. In the same period, money supply grew at an average rate of 19.5 percent down from the average rate of 28.7 percent.

1.3 Statement of the Problem

The overall objective of Zanzibar Vision 2020 is to transform Zanzibar into a middle income country by achieving a 9-10 percent Gross Domestic Product (GDP) growth rate by 2020. However, the latest statistics indicate that GDP grew by 1.0 percent during the first three quarters of 2013 compare to 9.0 percent recorded in the corresponding period in 2012 (BoT 2014).These rates are far below the target of 9-10 percent growth per annum. In the same period, Annual headline inflation rate accelerated to 8.0 percent

during the year ending June, 2014, from 7.0 percent recorded in the year ending May, 2014 (BoT, 2014).

On Interest Rates Developments, the situation is not encouraging at all as commercial banks interest rate recorded mixed trends. During the quarter ending March 2014, overall deposit rate averaged 8.68 percent, slightly higher compared to 8.63 percent recorded in the quarter ending December 2013 (BoT 2014). Likewise, 12 month deposit rate decreased to an average of 11.21 percent from 11.42 percent recorded in the preceding quarter. Similarly, there is an upward trend on lending rates where an average overall lending rate during the quarter ending March 2014 rose to 16.47 percent, compared to 16.05 percent recorded in the preceding quarter and 15.76 percent in the corresponding quarter 2013.

Following this evidence it appears that the role of monetary policy and economic growth in Zanzibar is not clear. There is dearth of knowledge pertaining with the impact of monetary policy on Zanzibar economic growth. In view of these shortcomings the current study is focusing at identifying the contribution of monetary policy in Zanzibar Economic Growth.

1.4 Objective of the Study

The general objective of the study is to investigate the impact of monetary policy in Zanzibar economic growth.

1.4.1 Specific Objectives:

i. To identify the variables of monetary policy their significantly to the contribution of monetary policy in Zanzibar economic growth
ii. To determine the relationship between monetary policy instruments and economic growth

iii. To identify the extent that monetary policy variables affects the economic growth of Zanzibar?

iv. To identify challenges encountered during the implementation of monetary policy objectives.

1.5 Research Questions

The key questions of this study are:

i. What are the monetary policy variables has the significantly contribution to the economic growth of Zanzibar?

ii. Is there any relationship between monetary policy instruments and economic growth?

iii. To what extent does the monetary policy variables affects the economic growth of Zanzibar?

iv. What are the challenges encountered during the implementation of the monetary policy objectives?

1.6 Scope of the Study

Present study will attempt to investigate how the monetary policy effects the Zanzibar economic growth through inflation, interest rate, exchange rate and money supply. These monetary instruments are the most researched topics in the modern era because they have very serious implications for growth and income distribution. However, the study will not involve other monetary policy instruments such as government budgetary operations, average reserve money national debt development and the like.

1.7 Limitation of the Study

The study was constrained by the following aspects:

- Respondents delayed to fill in and return the questionnaires.
- Some respondents reluctant to provide information during the study because of fear or suspicion.

- Some respondents were giving excuses such as lack of time, misplacing the questionnaires and being too busy as the result failed to return the questionnaire leading to collect less than the targeted number of questions.
- In adequate funds to cover a larger sample in Zanzibar.

1.8 Rationale of the Study

The study intends to reveal factors that influence the effectiveness of government audit in ensuring accountability of clients in Zanzibar .The study is expected to be much value to a number of beneficiaries such as ;

Firstly, this study will be of great importance to the government in achieving the macroeconomic objectives of price stability and a well sustained economic development.

Secondly, the purpose of this study is to fill the gap by testing the comparative effect of the monetary policy variables in the case of developing economy like Zanzibar.

Thirdly, it will be also importance to banks and financial institutions in carrying out the macroeconomic objectives of the country where they are operating.

Also, this research work will suggest ways through which the regulatory authorities can manipulate interest rates and other monetary policy tools to achieve the desired objectives and students and indeed the general public who are carrying out studies on this subject matter will find this research work very useful. As a matter of fact, it adds to already existing literature

Furthermore, this research will also act as a reference to other scholars or researchers who in future want to investigate the same topic.

Lastly, this research is significant to the researcher in the sense that it is in partial fulfilment of the academic requirements for the award of Master of Science Accounts and Finance of Mzumbe University.

CHAPTER TWO
LITERATURE REVIEW

2.1 Introduction

This chapter provides a survey of literature both theoretical and empirical. It begins with description of monetary policy instruments relating to the topic under the study namely: gross domestic product, inflation, exchange rate, interest rate and money supply.

2.1.1Gross Domestic Product (GDP)

The Gross Domestic Product (GDP) is the total value of final goods and services produced in the country during a given period. The estimation of the GDP is done in stages, with estimates generated at each stage being dependent on source data available. The different stages generate estimates which are sequentially designated as projected, provisional, revised or final. It is only the final estimates that are not subject to further changes (Ghana statistical service, 2014)

GDP measures the monetary value of final goods and services that is, those that are bought by the final user produced in a country in a given period of time (say a quarter or a year). It counts all the output generated within the borders of a country. GDP is composed of goods and services produced for sale in the market and also include some nonmarket production, such as defence or education services provided by the government (Callen, 2008)

Theoretically, GDP can be viewed in three different ways which are:

- **The production approach**: Sums the "value added" at each stage of production, where value added is defined as total sales minus the value of intermediate inputs into the production process. For example, flour would be an intermediate input and bread the final product, or an architect's services would be an intermediate input and the building the final product. (Callen, 2008)

- **The expenditure approach:** Adds up the value of purchases made by final users for example, the consumption of food, televisions, and medical services by households; the investments in machinery by companies; and the purchases of goods and services by the government and foreigners (Callen, 2008)
- **The income approach**: Sums the incomes generated by production for example, the compensation employees receive and the operating surplus of companies (roughly sales minus costs) (Callen, 2008)

In economics, GDP is defined as the value of all goods and services produced within the geographic territory of an economy in a given interval, such as a year. A well-known formula for GDP has been stated as the total market value of all final goods and services produced in a country in a given year, equal to total consumer, investment and government spending, plus the value of exports, minus the value of imports. GDP is the most commonly known measures of national income, output, and growth. GDP is of two types. Nominal GDP is a measure of money spent. Real GDP corrects the gross nominal GDP figure for inflation, making real GDP more useful for historical comparison. Nominal GDP is sometimes called money GDP, and real GDP is sometimes called inflation- corrected GDP or constant price GDP. For purpose of this study data for real GDP for the period 2000-2013 will considered.

2.1.2 Money Supply

Money supply is the total amount of money available in an economy at a particular point of time. The importance of an appropriate monetary aggregate can hardly be over emphasized, particularly for those countries that attach their monetary policy to monetary aggregates. The breakdown of stable relationship between monetary aggregates and macroeconomic variables due to structural change in financial markets and emergence of new financial instruments led to frequent changes in the definition of monetary aggregates. In practice more than one monetary aggregate are usually defined

in the hope that multiple aggregates may collectively provide more information for the conduct of monetary policy and developments in the economy.

2.1.3 Interest Rate

The term interest rate usually means any bank lending rate. However, the rates don't always move rapidly because they are driven by different forces. Rates on longer-term loans are driven by 3 months, 6 months, and 12 months treasury bills in Tanzania. On treasury notes, like any loan, the interest rates are fixed. However, Treasury notes are auctioned to the highest bidder. Depending on the demand at auction, the note could cost more or less than face value. However, at the end of the note's term, the Government pays back full face value to the bidder. In effect, bidders are loaning the bid amount to the Government. In return, they get the interest rate and the full face value.

During the year ending December 2010, annual average interest rates on domestic currency denominated financial products exhibited a mixed trend. The overall Treasury bills yield decreased slightly to an annual average of 6.32 percent in December 2010, from 6.91 percent in the year ending December 2009. A same pattern was observed in the Treasury bond market, where average yields declined across all maturities. Overall inter-bank cash market rate increased to an average of 5.26 percent in the year ending December 2010, from 1.57 percent recorded in a similar period a year earlier (Ministry of finance, 2011)

Annual average interest rates offered and charged by banks, in particular, overall time deposit rate declined to an average of 5.11 percent in December 2010, from 6.36 percent recorded in December 2009. Similarly, negotiated deposit rate declined to 8.45 percent in December 2010, from 9.94 percent recorded in December 2009. Likewise, savings deposit rate declined slightly to an annual average of 2.41 percent, from 2.83 percent recorded in the year ending December 2009 (Ministry of finance, 2011)

On the other hand, overall lending rate decreased to 13.45 percent in December 2010, from an annual average of 14.38 percent recorded in December 2009. A decreasing pattern was also observed in short-term lending rates that decreased to an annual average of 13.37 percent in December 2010, from 13.96 percent recorded in December 2009 and negotiated lending rate which decreased to an average of 11.88 percent, from an average of 13.18 percent recorded in the same period. As a result, the spread between short-term lending and deposit rates widened to 5.27 percentage points in the year under review, from 4.97 percentage points recorded a year earlier (Ministry of finance, 2011)

2.1.4 Inflation Rate

Stable inflation is recognized as an integral component of sound macroeconomic policies. Inflation refers to the persistent rise in general price level. Inflation affects the distribution of both income and wealth. Nominal incomes of some individuals tend to increase with inflation, while those of others remain constant thus causing a change in the distribution of income in favor of the former group. Complex and multi-dimensional problem of inflation needs a systematic and scientific understanding, examination, investigation and analysis. The excess money supply growth and inflation in Zanzibar are positively associated with each other. This provides the basis to examine the impact of monetary policy by controlling inflation on economic growth. Four different price indices can be used to measure inflation rate: the consumer price index (CPI), the wholesale price index (WPI), the sensitive price index (SPI) and the GDP deflator. In Zanzibar, the main focus is placed on the CPI as a measure of inflation as it is more representative with a wider coverage of food and non-food items in 71 markets of 35 cities around the country. Also it most closely represents the cost of living. So this study assumes annual CPI for the period 2000- to 2013 as an indicator of inflation in economy.

2.1.5 Nominal and Real Exchange rate

According to MacDonald (2007) has categorises the nominal exchange rate in to two types of, namely spot and forward exchange rate.

The bilateral spot exchange rate, *S*, is the rate at which foreign exchange can be bought and sold for immediate delivery, conventionally 1 or 2 days (MacDonald, 2007)

The bilateral forward rate, *F* ,is that rate negotiated today (time *t*) at which foreign exchange can be bought and sold for delivery sometime in the future (when a variable appears without a time subscript it is implicitly assumed that it is a period-*t* variable). The most popularly traded forward contract has a maturity of 90 days and contracts beyond 1 year are relatively scarce. Forward contracts are generally negotiated between an individual for example, a private customer or commercial organisation and a bank and the individual has to take delivery of the contract on the specified date. (Ickes, 2004)

The real exchange rate is the critical variable (along with the rate of interest) in determining the capital account; this is because the real exchange rate is the relative price of goods across countries. Hence, changes in the real exchange rate affect the competitiveness of traded goods. The nominal exchange rate, S, refers to the dollar price of foreign ex-change. As with most variables in economics we distinguish between the nominal and real values. The real exchange rate measures the cost of foreign goods relative to domestic goods. It gives a measure of competitiveness, and it is a useful variable for explaining trade behaviour and national income (Ickes, 2004).

2.2 Historical of Monetary Policy in Zanzibar

Monetary arrangements in Tanzania prior to l919 were different on the Mainland from those for Zanzibar, since the Mainland was under German rule, while the Zanzibar had its own government. The currency on the Mainland was the German Rupee, made of silver, while the subsidiary coin was the Heller, which was 1/100 of the Rupee. In Zanzibar, the Indian Silver Rupee and its subsidiary coins were in circulation. In addition, shells and cattle used to serve as a store of value, and, to a certain extent, even

as a medium of exchange. Commercial banking was introduced in the country in 1905, when the Deutsch-Ostafrikanische Bank opened its office in Dar es Salaam. This bank had a concession from the German Government to issue its own notes and coins, which helped the bank to meet the demand for coins in exchange for its notes. A temporary mint was set up in Tabora. In 1911, another German bank, namely the Handelsbank fuer Ostafrika, opened a branch in Tanga. There also was an official savings bank (BoT, 2011)

After World War I, the Mainland became a mandate territory of the United Kingdom (UK) and its monetary system was aligned to that of Kenya and Uganda, mainly in two aspects that is through the establishment of the EACB in December 1919 and by auctioning off the assets of the German banks and permitting British banks to open their offices (BoT, 2011)

The regulations defining the Constitution, Duties, and Powers of the EACB stated that it had been constituted to provide for, and to control the supply of, currency in the East African Protectorate, the Uganda Protectorate, and any other dependencies in East Africa, which might be added by the Secretary of State, to ensure that the currency was maintained in satisfactory condition, and generally to watch over the interest of the dependencies as far as currency was concerned. Originally, the EACB operated in Tanzania Mainland, Kenya, and Uganda. Zanzibar adopted its currency in 1936. Other occupied countries joined the Board later, but withdrew from it again after some time. The Board itself stopped functioning in 1966, when Central Banks came into existence in Tanzania, Kenya, and Uganda (BoT, 2011)

The Board was authorized to issue its own currency notes and mint coins according to the designs approved by the Secretary of State for circulation in its area of operations. The rate of exchange between the Board's currency and the pound sterling was fixed by the Secretary of State. Board currency was essentially issued in exchange for pound

sterling, indicating that the EACB's currency was backed predominantly by pound sterling (BoT, 2011)

2.3 Definition of Monetary Policy

Monetary policy is concerned with discretionary control of money supply by the monetary authorities (Central Bank with Central Government) in order 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 government actions designed to influence the behaviour of the monetary sector.

Monetary policy is a tool used by the monetary authority of a country, the central bank, in order to control real economy. In other words, it affects all kinds of economic and financial decisions that made by people in the country. More specifically, the monetary policy influence the performance of the economy's crucial factors such as inflation, output and employment and also prices of goods, asset prices, exchange rates, and consumption and investment decisions. However, the central bank cannot directly control inflation or influence output and employment directly; it affects them indirectly by raising or lowering a short-term interest rate or by changing the money supply (nominal money stock or monetary base) through an open market operation, purchasing other securities eg government bonds to increase the money supply or selling securities to decrease it. In this context, the monetary transmission mechanism is the process which describes how policy-induced changes in the money supply or the short-term nominal interest rate impact on real variables such as aggregate output and employment. The individual links through which monetary policy impulses are known as transmission channels. The monetary policy transmission channels are classified into two basic types. The neo-classical channel which comprises (traditional) interest rate channels, other asset price channel and exchange rate channel which can be classified under other asset

price channel. Non-neoclassical channels involve credit channel or credit view (Cambazoğlu and Karaalp, 2012)

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 an essential tool for executing the mandate of monetary and price stability. Monetary policy is essentially a programme 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 (Dwivedi, 2005)

Monetary policy is one of the tools used for controlling money supply in an economy of a nation 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. There are three basic kinds of monetary policy decisions. These include; the amount of money in circulation the level of interest rate and the functions of credit markets and the banking system (Ogunjimi, 1997)

The combination of these measures is designed to regulate the value, supply and cost of money in an economy, in line with the level of economic activity. Excess supply of money will result in an excess demand for goods and services, higher prices and deterioration of the balance of payments (Ogunjimi, 1997)

2.4 Economic Growth measurement

Economic growth has long been considered an important goal of economic policy with a substantial body of research dedicated to explaining how this goal can be achieved (Fadare, 2010). Economic growth has received much attention among scholars. According to Khorravi and Karimi (2010), classical studies estimate that economic growth is largely linked to labour and capital as factors of production.

Economic growth represents the expansion of a country's potential GDP or output. For instance, if the social rate of return on investment exceeds the private return, then tax policies that encourage can raise the growth rate and levels of utility. Growth models that incorporate public services, the optimal tax policy lingers on the characteristic of services (Olopade and Olopade, 2010)

In terms of decrease of poverty "By economic development is meant not simply an increase in the GNP of a country but rather a decrease in poverty at an individual level. Probably the best indicators of poverty are low food consumption and higher unemployment. If these problems are effectively dealt along with growth of GNP and with a reasonably equitable income distribution then and only then can genuine economic development be talked of"' (Singer and Ansari, 1977)

Per capita income has been one of the earliest and also a popular measure of economic development. Some economists have emphasized on certain social indicators as a measure of development such as levels of literacy, health and employment, while others have emphasized on reduction in poverty as an important indicator of development. It has now become a common practice to measure development in terms of composite indices such as HDI (Human Development Index), GDI (Gender Development Index), HPI (Human Poverty Index) (Dimitrijević and Lovre, 2012)

It is a primary indicator which measures economic performance of a country. Further, for measuring the rate of economic development national and international agencies mostly use per capita income indicator and it has tremendous conceptual and statistical merits. Per capita income is the best single index which is readily available and an easily assumed measure for classifying countries into developed and less developed and may be used as a relevant starting point (Dimitrijević and Lovre, 2012)

Per Capita GDP is the best measures for economic growth due to various benefits such as for measuring national economic development, for making an assessment of economic performance of a country and for measuring standard of living of the people per capita GDP, commonly referred to as per capita income is used as an important indicator in monitoring economic growth trends. Economic planners and forecasters have used the GDP per capita as it signifies economic welfare. It helps in developing policies and plans for development because GDP per capita shows whether an economy is improving or not in a more comprehensive manner. It is a convenient benchmark for policy makers and in public debates. It is easily understandable and has been used for measuring human development and well being of a nation and is regarded as a substitute for all economic activity. In the words of Meier and Baldwin, "an increase in national income may be suggested as the most relevant, as well as most convenient, single measure of development for both poor and rich countries" (Dimitrijević and Lovre, 2012)

2.5 Theoretical literature

Monetary policy is a tool used by the monetary authority of a country, the central bank, in order to control real economy. In other words, it affects all kinds of economic and financial decisions that made by people in the country. More specifically, the monetary policy influence the performance of the economy's crucial factors such as inflation, output and employment and also prices of goods, asset prices, exchange rates, and consumption and investment decisions. However, the central bank cannot directly

control inflation or influence output and employment directly; it affects them indirectly by raising or lowering a short-term interest rate or by changing the money supply (nominal money stock or monetary base) through an open market operation, purchasing other securities eg government bonds to increase the money supply or selling securities to decrease it. In this context, the monetary transmission mechanism is the process which describes how policy-induced changes in the money supply or the short-term nominal interest rate impact on real variables such as aggregate output and employment. The individual links through which monetary policy impulses are known as transmission channels. The monetary policy transmission channels are classified into two basic types. The neo-classical channel which comprises (traditional) interest rate channels, other asset price channel and exchange rate channel which can be classified under other asset price channel. Non-neoclassical channels involve credit channel or credit view (Cambazoğlu and Karaalp, 2012).

Cambazoğlu and Karaalp (2012) argued that 'Every monetary policy impulse which can be the change of interest rate or the change of monetary base has a lagged impact on the economy'. The credit channel is one of the monetary transmission channels that transmitted to the monetary policy to the real economy and it is also classified as one of the non-neoclassical transmission mechanisms which can arise either from government interference in markets or through imperfections in private markets. The credit channel of monetary policy generates direct impact on aggregate demand, output and thereby employment. In the literature at least two effects are generally distinguished; the bank-based channels (through lending and bank capital) and the balance-sheet channel (affecting both firms and households in the context of borrowers‟ liquidity). Bernanke and Gertler describe two possible linkages. Moreover, another effect is also included into this classification as effects on credit supply from government interventions in credit markets. In this context, Boivin et al. discuss three basic non-neoclassical channels: effects on credit supply from government interventions in credit markets, the bank-based channels and the balance-sheet channel.

Cambazoğlu and Karaalp (2012) explore banks play a special role in the financial system due to their feature of solving asymmetric information problems in credit markets. Within this framework, bank loans are both an important source of funds for business activities and there is no perfect substitute for this kind of credit. Moreover, the central bank would constrain bank's ability to lend, therefore bank dependent business exist which are unable to substitute credit from other financing sources. The monetary policy has more effect on expenditure by smaller firms which are more dependent on bank loans than larger firms because larger firms directly access the credit markets through stock and bond markets without going through banks. More specifically through bank lending channel, firms, particularly small firms, bank loans are the principal source of funds investment and consequently employment. Ireland refers that theories and models of the bank lending channel emphasize that deposits represent the principal source of funds for lending for many banks and especially small banks. In this context bank loans represent the principal source of funds for investment especially for the small firms.

As asserted by Jhingan (2000), monetary policy refers to the credit control measures adopted by the central bank of a country. This policy employs central bank's control of the supply of money as instrument for achieving desired economic goals.
Countries all over the world are supposed to achieve certain objectives for them to be said to be doing well. Some of these objectives include price stability, high rate of employment, a desirable and sustainable rate of economic growth and balance of payments equilibrium. Governments use their organs and the private sector to achieve these goals, which most times may be complicating (Akujuobi, 2010)

Tanzania as a developing economy has, since union of Zanzibar and Tanganyika in 1964, been striving to achieve these goals. One of the channels of doing this is through the instrumentality of monetary policy. According to BoT (1979) Central Bank of Tanzania (BOT) has the primary responsibility for formulating monetary policy and has

enjoyed a good deal of independence in doing so, although the final authority for the policy rests with the Federal Executive Council. It would be recalled that in Tanzania, it has been the practice that BOT'S monetary policy proposals are made as an integral part of the Federal Government annual budget which combines approved monetary and fiscal measures.

Economic theories exist that tend to explain the role of money in the economy. Notable among them according to Luckett (1984), are the Keynesian theory and the quantity theory. Within them, however, are subgroups of variants of each. Keynesians are of the opinion that money is only one financial asset among many that changes in the quantity of money affect the real sector only indirectly via portfolio adjustments, and the economic stabilization requires the use of fiscal policy as well as monetary policy. On the other hand, modern quantity theorists believe that changes in the quantity of money directly affect the real sector and that monetary policy alone is sufficient to stabilize the economy (Akujuobi, 2010)

According to Akujuobi (2010) said that ''Nigeria and other developing economies use monetary policy as expected means of promoting desired economic goals. The monetary policy instruments are either quantitative or qualitative. While quantitative ones can be of general type or indirect type, the qualitative ones may be selective or direct. These instruments affect the level of aggregate demand through the supply of money, cost of money and the availability of credit. Quantitative instruments include bank rate changes, open market operations and reserve requirements changes. They are expected to regulate the overall level of credit in the economy through commercial banks. In selective credit controls specific types of credit are aimed to be controlled. These include margin requirements and regulation of credit to the different sectors of the economy of the concerned country. According to (Onoh 2007) and (CBN 1979) Nigeria has used these instruments at different stages of the country's development.

Baumol and Blinder (1979), Wonnacott and Wonnacott (1979), Jingan (2000), Gordan (1981) believe that the effective use of the monetary policy instruments depend on a number of factors, including the level of development of the money markets. The situation is worse, Jingan (2000) asserted, because of large non-monetized sector, under-developed money and capital markets, large numbers of non-bank financial institutions (NBFIS), high liquidity nature of most of the money-deposit banks, small percentage of bank money vis-à-vis money supply and the culture of most people not having banking habit. This is so because monetary policy instruments work though transmission paths.

2.6 Empirical literature

The study described the empirical literatures from deferent sources of data such as articles, journals, magazines, on discussed on that empirical literature the study concluded the following matters.

2.6.1 Significance of Monetary Policy in Economic Growth

Government policies, including monetary policy, affect the growth of domestic output to the extent that they affect the quantity and productivity of capital and labour. Monetary policy is only one element of overall macroeconomic policy, and can only affect the production process through its impact on interest rates. There are two main channels of monetary policy. One is through the effect that interest rate changes have on the exchange rate of a currency, and the other is through the effect that interest rate changes have on demand. Therefore monetary policy has an impact on economic activity and growth through the workings of foreign and domestic markets for goods and services (Boweni, 2000).

Although monetary policy is the principal stabilization tool for most economies used by an independent and credible central bank, still there are economists who see important stabilization role for fiscal policy working alongside monetary policy. Hanif and Arby

(2003) posit that no matter how independent central bank is, the monetary policy may not be sufficient for determining the price level and there is role for fiscal policy.

Hameed, et al (2012) presented a review on how the decisions of monetary authorities influence the macroeconomic variables like gross domestic product (GDP), money supply, interest rates, exchange rates and inflation. The using ordinary least square (OLS) they explained the relationship between the variables under study and came to a conclusion that tight monetary policy with balanced adjustments money supply, interest rates, exchange rates and inflation shows a positive relationship with GDP.

The relative effectiveness of monetary and fiscal policy on economic activity in Nigeria using co integration and error correction modelling techniques using time series data for the period 1970-1998. The result of their analysis shows that monetary rather than fiscal policy exerts a great impact on economic growth in Nigeria. They found that emphasis on fiscal action of the government has led to greater distortion in the Nigerian economy (Ajisafe and Folorunso, 2002)

Ajisafe and Folorunso (2002) argued that both monetary and fiscal policies should be complementary. Ghosh and Saibal (2006) developed an empirical model to explore the role that bank characteristics play in influencing the monetary transmission process, employing data on Indian commercial banks for the period 1992-2004. Their findings indicate that for banks classified according to size and capitalization, a monetary contraction lowers bank lending, although large and well-capitalized banks are able to shield their loan portfolio from monetary shocks.

Dagmara and Łukasz (2013) examines the actual degree of Polish monetary policy independence in the context of joining the Euro zone. It is frequently argued that the main cost of the participation in any other common currency area, is the loss of monetary policy independence. In contrast, the paper raises the question of the actual

possibility of such a policy in a small open economy operating within highly liberalized capital flows and highly integrated financial markets like Poland. Vector Error-Correction Mechanism model and several parametric hypotheses concerning the speed and asymmetry of adjustment was used.

Ebiringa et al. (2014) measures the effect of monetary policy on economic growth in Nigeria, they use the different measurement such as Diagnostic Test, Ordinary Least Square Estimates, Johansen Co-Integration Test, Summary of Unit Root Test, VAR Model, Casual Effects, Pairwise Granger Causality Tests, Impulse-Response Analysis. According to their test they conclude that ‘’Based on results of empirical analysis, the VAR model is a better estimator than the OLS to estimate the effect of monetary policy factors on economic growth in Nigeria because the values of the AIC and SIC are smaller. Generally, the smaller the AIC, the better the model selected. However, interest rate, money supply and inflation seem to have short run effects on economic growth, while exchange rate seems to have long run effect. This may not be unconnected with the high dependence of the Nigerian economy on crude oil export with the attendant vagaries of foreign shocks and volatility. The finding shows that the four variables can significantly predict 55.15% of short run variation in GDP, while in the long run they predict economic growth to the level of 84%. We therefore recommend that for monetary policy to lead to sustainable economic growth efforts must be made to manage periodic volatility in interest rate, money supply and inflation, while in the long run the stability the value of the domestic currency must be assure through effective exchange rate management regime.’’

Ridhwan, DeGroot, Henri, Nijkamp and Rietveld (2010) studied the impact of monetary policy on economic development in some economies using vector autoregressive (VAR) models and found that capital intensity financial deepening, the inflation rate model types used and economic size are important in explaining the variation in outcomes across regions and over time. On his own Abdurrahman (2010) studied the role of

monetary policy on economic activity in Sudan and found that monetary policy had little impact on economic activity during the period under consideration. Chuku (2009) on the other hand, studied the effects of monetary policy innovations in Nigeria using structural vector autoregressive (SVAR) approach. The monetary instruments he used were broad money (M2) as quantity-based nominal anchor, minimum rediscount rate (MRR) and real effective exchange rate (REER) as price-based nominal anchors and found that the use of M2 was the most influential monetary policy instrument used in the country (Akujuobi, 2010)

Lucas (1973) concluded that monetary policy plays a key role in determining inflation rates. He said that various studies provide the empirical evidence on the relationship between inflation and growth. Empirically, inflation in any economy induces uncertainty in economy and increased economic uncertainty negatively affects the output growth. Inflation overall effects the growth of the country, the financial sector development and the vulnerable poor segment of the population. There is clear consensus that even moderate levels of inflation, damage real growth.

Kremer' et al. (2008) examined the impact of inflation on long-term economic growth for a panel of 63 industrial and non-industrial countries. Their results revealed that inflation obstructs growth if it exceeds thresholds of 2% for industrial and 12% for non-industrial countries. However below these thresholds, effect of inflation on growth remained significantly positive.

In developed economies, such as the United States (U.S) and some core European countries, there is substantial evidence of the effectiveness of monetary policy innovations on real economic parameters (Mishkin (2002), Christiano *et al.* (1999), Rafiq and Mallick (2008) and Bernanke *et al.* (2005). However, for developing countries like Nigeria, the evidence is weak and full of "puzzles". For example, Balogun (2007) used simultaneous equation models to test the hypothesis of monetary policy ineffectiveness in Nigeria and find that, rather than promote growth, erstwhile domestic

monetary policy was the source of stagnation and persistent inflation. Similar evidence was also found for The Gambia, Guinea, Ghana and Sierra Leone using the same models (Fasanya, 2013**)**

2.6.2 The Influence of Interest Rate and Money Supply in GDP

Unlike to the previous scholars, Kuttner and Mosser (2002) indicated that monetary policy affects the economy through several transmission mechanisms such as the interest rate channel, the exchange rate channel, Tobin's q theory, the wealth effect, the monetarist channel, and the credit channels including the bank lending channel and the balance-sheet channel. But mainly monetary policy plays its role in controlling inflation through money supply and interest rate. Money Supply (M2) would affect real GDP positively because an increase in real quantity of money causes the nominal interest rate to decline and real output to rise (Hsing, 2005). Taylor (1995) emphasized the importance of the interest rate channel in this regard.

Extensively monetary policy instruments such as cash reserve ratio, minimum rediscount rate and treasury bills rate. The use of these instruments depended much on how developed the monetary policy channels are. For instance, because of the lack of depth of the money and capital markets in earlier years of Nigeria, manipulation of interest rates was mainly relied on. However, this instrument appears not to have impacted much on the economic development of the country, unlike cash reserve ratio that impacted significantly. The apparent low development of the money and capital market which are the main channels of the monetary policy instrument to development activities may not be unconnected with the findings (Akujuobi, 2010)

From the result of the test, only cash reserve ratio is significant at both 1% and 5% probability level. This is followed by Treasury bill rate at 5.6%, minimum rediscount rate at 7.4% and liquidity rate at 7.7%. Interest rate was not significant at all. That interest rate was not significant in impacting on Nigeria's gross domestic product may

not be unexpected. This is because most Nigerians do not react much to changes in interest rates, as most in cases, other factors are behind their taking loans. Such factors, at times, may not be economic as some may even take loans to marry more wives, promote political interests and this crowd out the loans from the promotion of economic development.

The general poor impact of the monetary policy instruments studied in the promotion of Nigeria's economic development may not be unconnected with what happened along the transmission paths of the monetary policy instrument's such as monetary base, bank liabilities and assets (Akujuobi, 2010)

In examining the relationship between economic growth and interest, Fry (1988) and Gleb (1989) find, from pooled cross-economy time series data, a consistently positive and significant relationship between economic growth and the real rate of interest. In order to separate the effects of inflation and real interest rates on growth, World Bank conducted a study. This study provides evidence from a sample of twenty countries, for the impact of the real interest rate and the inflation rate on the growth rate. The real interest rate has a statistically significant and positive impact on growth. But when inflation is included, the coefficient for the real interest rate is no longer statistically significant, while the negative coefficient on the rate of inflation is. This suggests that the positive relation between real rate of interest and growth was actually reflecting a negative relation between inflation and growth in financially repressed regimes, where nominal interest rates are kept fixed (World Bank, 1993).

Chimobi and Uche (2010) examined the relationship between Money, Inflation and Output in Nigeria. The study adopted co-integration and granger-causality test analysis. The co-integrating result of the study showed that the variables used in the model exhibited no long run relationship among each other. Nevertheless money supply was seen to granger cause both output and inflation. The result of the study suggested that monetary stability can contribute towards price stability in the Nigerian economy since

the variation in price level is mainly caused by money supply and concluded that inflation in Nigeria is to an extent a monetary phenomenon.

The Error Correction Mechanism and Cointegration technique was employed by Adefeso and Mobolaji (2010) estimate the relative effectiveness of fiscal and monetary policy on economic growth in Nigeria. The empirical result showed that the effect of monetary policy is stronger than fiscal policy and the exclusion of the degree of openness did not weak this conclusion.

Amassoma *et al.* (2011) examined the effect of monetary policy on macroeconomic variables in Nigeria by adopting a simplified Ordinary Least Squared technique found that that monetary policy had a significant effect on exchange rate and money supply while monetary policy was observed to have an insignificant influence on price instability.

Onyeiwu (2012) examines the impact of monetary policy on the Nigerian economy using the Ordinary Least Squares Method (OLS) to analyse data and conclude that monetary policy presented by money supply exerts a positive impact on GDP growth and Balance of Payment but negative impact on rate of inflation.

All of the above discussion shows that there is a nonlinear relationship between inflation and economic growth. However inflation does effect economic growth directly. Monetary Policy variables such as Money Supply M2 and Interest rates along with inflation also effect the economic growth in economy.

2.7 Conceptual Framework

The objective of using Monetary policy instruments is to regulate the quality and quantity of money supply in the economy based on the theoretical foundations as laid by Irving Fisher (1976), Friedman (1968), Modiglani (1963) and Keynes (1930). The theory of monetary policy as fundamental to the management of economy got its root from the works of Irving Fisher (1976), who laid the foundation of the quantity theory of money through his equation of exchange. In his proposition, Fisher concluded that

money has no effect on economic aggregates but price. However, the role of money in an economy got further clarification from Keynes (1930) who proposed that money has indirect effect on other economic variables by influencing the interest rate which affects investment and cash holding of economic agents.

The position of Keynes is that unemployment arises from inadequate aggregate demand which can be increased by increase in money supply which generates increase spending, increase employment and economic growth. However, Keynes recommends a proper combination of monetary and fiscal policies as at some occasions taking into account that sometimes monetary policy could fail to achieve its objective. The role of monetary policy which is of course influencing the volume, cost and direction of money supply was effectively conversed by Friedman (1968), whose position is that inflation is always and everywhere a monetary phenomenon while recognizing in the short run that increase in money supply can reduce unemployment but can also create inflation and so the monetary authorities should increase money supply with caution.

There are different transmission channels through which monetary policy affects economic activities and these channels of transmissions have been broadly examined under the monetarist and Keynesian schools of thought. The monetarist suggests that change in the money supply leads directly to a change in the real magnitude of money.
Describing this transmission mechanism, Friedman and Schwartz (1963) revealed that an expansive open market operations by the Central Bank, increases stock of money, which also leads to an increase in Commercial Bank reserves and ability to create credit and hence increase money supply through the multiplier effect. In order to reduce the quantity of money in their portfolios, the bank and non-bank organizations purchase securities with characteristics of the type sold by the Central Bank, thus stimulating activities in the real sector.

Monetarists emphasized money supply as the key factor affecting the wellbeing of the economy. Thus, in order to promote steady growth rate, they insist that money supply should grow at a fixed rate, instead of being regulated and altered by the monetary authority. Keynes on the other hand, maintained that monetary policy alone is ineffective in stimulating economic activity because it works through indirect interest rate mechanism (Friedman,1963)

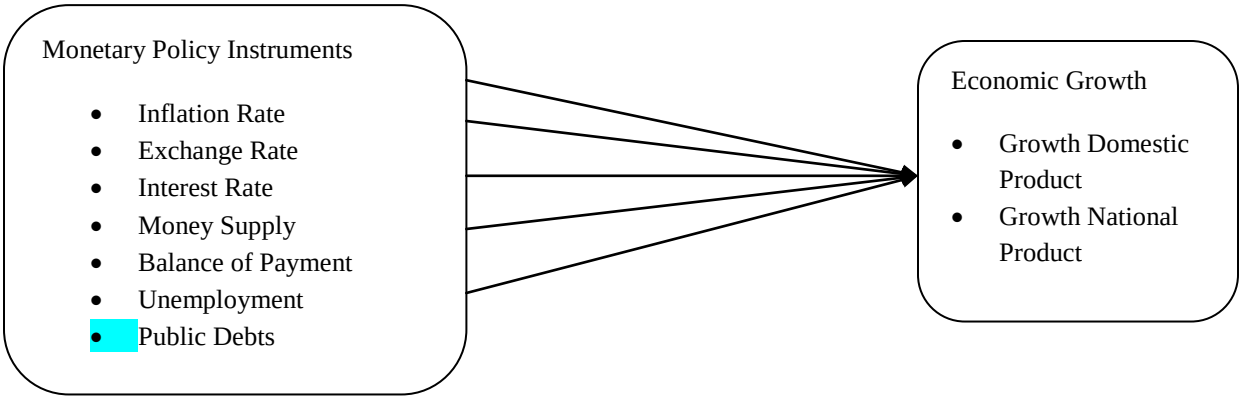
Friedman equally argued that since money supply is substitutive not just for bonds but also for many goods and services, changes in money supply will therefore have both direct and indirect effects on spending and investment respectively. Dagmara and Łukasz (2013) referencing Brunner and Meltzer spending model insist that the demand for money will depend upon the relative rates of return available or different competing assets in which wealth can be (Dagmara and Łukasz, 2013)

Monetary theory gives an absolute priority to the stability goals and low inflation rate, and almost all economists agree that the use of monetary policy for economic growth usually leads to higher inflation, with no real impact on growth. This is known as the concept of long-term monetary neutrality, although most of the monetary policy theorists and practitioners (representatives of the dominant schools of economics), do not challenge the short-term impact of monetary policy on economic growth **(**Dimitrijević and Lovre, 2012)

From the foregoing we can conclude that money has no effect on economic aggregates but price. However, money has indirect effect on other macroeconomic variables like Gross Domestic Product (GDP), money supply, interest rates, exchange rates and inflation by influencing the interest rate which affects investment and cash holding of economic agents. In addition, it become clear that money supply is a key factor affecting the wellbeing of the economy. Thus, in order to promote steady growth rate, money supply should grow at a fixed rate, instead of being regulated and altered by the monetary authority. Indeed, sustainable economic growth cannot be achieved through

monetary policy alone. Instead, a proper combination of monetary and fiscal policies is needed taking into account that sometimes monetary policy can fail to achieve its objective. These concepts are summarized in figure 1.1 below:

Figure 2.1 Conceptual Frameworks and Research Model



Source: Author's owner constructs 2015

1.8 Hypothesis

The study will be guided by only one hypothesis which is divided into null hypothesis [Ho] and alternative hypothesis [H1]. This hypothesis upon which this study is built as follows:

Ho = Monetary policy instruments significantly influence economic growth.

H1 = Monetary policy instruments significantly not influence economic growth.

CHAPTER THREE
RESEARCH METHODOLOGY

3.1 Introduction

This chapter the research methodology used in this study. The chapter is composed of description of general research approach, the study areas, population, sampling techniques and sample size. Data collection methods and analysis techniques are also in the chapter.

3.2 Study Area

The study was carried in Zanzibar Town where the key institutions in this study are BoT Head Office, Zanzibar Planning Commission, Zanzibar Investment Promotion Authority (ZIPA) and Ministry of Finance. The study was carried to the stated area because of the various reasons not only to budgeting constraints and availability of data and that institutions are located to Town area but also the researcher need to show the relationship of monetary policy instrument and economic growth of Zanzibar.

The selection of these Institutions was due to the fact that, it was a test site for the study at hand (Kuhn, 1962). This is so truly because the Ministry Finance guidance for the implementation of budget for the other Ministries. The Bank of Tanzania was chosen because it is responsible for the monetary policy makers, like wise Zanzibar planning commission is responsible for planning all the activities to be implemented including the economic growth planning and Zanzibar Investment promotion Authority is considered on the all matters of investing in Zanzibar in order to boost up the economic growth of the country.

3.3 Research Design

This study used quantitative as well as qualitative techniques in the data collection procedure the reason behind to use qualitative technique purposely to gives the descriptions and other oral evidences from the respondents. On the other hand,

quantitative data collection method (questionnaires) was designed to give the researcher the insights to the monetary policy and economic growth of Zanzibar.

The study was conducted in a descriptive and analytical cross-sectional survey because it would facilitates the researcher to examine a selection of the population at a single-time period (Kothari, 2004). Both qualitative and quantitative data were collected using questionnaires and interviews, which will be administered to different categories of respondents comparing the target population.

3.4 Research Approach

This study was employed both qualitative and descriptive statistics approaches. Qualitative approach helped the researcher in obtaining description of the objects concerning monetary policy variable and economic growth of Zanzibar from senior officials of Bot, Zanzibar Planning Commission, Ministry of Finance and Zanzibar Investment Promotion Authority. On the other hand, descriptive statistics approach was employed to obtain quantifiable data about the study. Such data were obtained from the respondents through questionnaire.

3.5 Population

In this study, the target population comprised of four major stakeholders. These included the managers and senior staff of BoT, senior staff from Zanzibar Planning Commission, senior staff from Zanzibar Investment Promotion Authority and senior staff from Ministry of Finance. Each category of respondents was providing some information which was useful for this study.

The population of the study consists of 25 Bank of Tanzania, 25 Zanzibar Planning Commission, 25 Ministry of Finance and 25 Zanzibar Investment Promotion Authority.

Table 3.1 Population of the Study

Stratum	Population number
Senior Staffs from Bank of Tanzania	25
Senior Staffs from Ministry of Finance	25
Senior Staffs from Zanzibar Planning Commission	25
Senior staffs from Zanzibar Investment Promotion Authority	25
Total	**100**

Source: Field data, 2015

3.6 Unit of Analysis

This study composed of four types of units of analysis. These are: Senior staffs from Bank of Tanzania, senior staffs from Ministry of Finance, senior staffs from Zanzibar Planning Commission and senior staffs from Zanzibar Investment Promotion Authority, these units are responsible for monetary policy and economic growth of Zanzibar. Members of these units of analysis have education level between Certificate and Master and above and have experience of 2 years and above in monetary policy and economic growth matters. These categories of participants were considered for the study because they are the ones participating in monetary policy and economic growth.

3.7 Sample Size Sampling

This study composed of four types of units of analysis. These are: Senior staffs from Bank of Tanzania, senior staffs from Ministry of Finance, senior staffs from Zanzibar Planning Commission and senior staffs from Zanzibar Investment Promotion Authority, these units are responsible for monetary policy and economic growth of Zanzibar, so the targeted sample size of the study is 24 respondents from Bank of Tanzania, 24 respondents from Ministry of Finance, 24 respondents from Zanzibar Investment Promotion Authority and 24 respondents from Zanzibar Planning Commission which form the total of 96 respondents, so the sample size was selected based on a table for determining sample size by (Krejcie & Morgan 1970).

Tables 3.2 Sample Size of the Study

Stratum	**Targeted Sample Size**	Actual Sample Size
Senior Staffs from Bank of Tanzania	24	20
Senior Staffs from Ministry of Finance	24	25
Senior Staffs from Zanzibar Planning Commission	24	15
Senior staffs from Zanzibar Investment Promotion Authority	24	20
Total	**96**	**80**

Source: Field data, 2015

3.8 Techniques/Procedures

Data was collected from BoT head office. Purposive sampling technique was used to select Managers and senior staff from BoT, while simple random sampling was applied during the selection respondents from Zanzibar Planning Commission and Ministry of Finance. A total 80 respondents were selected for the study

This study used stratified simple random sampling this because there are different types of actors involved in the monetary policy and economic growth process, to make it more representative, here the stratum includes senior staffs from Bank of Tanzania who is responsible for monetary policy and senior staffs from Ministry of Finance, Zanzibar Planning Commission and Zanzibar Investment Promotion Authority who are concerned with the economic growth of Zanzibar.

3.9 Types and Source of Data

The study was employed both primary and secondary data. Primary data are ones that have been collected for the first time by the researcher. Primary data have the advantage of giving the researcher an in-depth familiarity with the research findings, promoting accurate answers, and a better understanding of the research process (Gall, 2005). These data were obtained through interviews and execution of questionnaire that were administered to participants. Secondary data on other hands, the data obtained from literature sources or data collected by other people for some other purposes. Thus secondary data provide second hand information and include both raw data and

published ones (Saunders & Thornhill, 2000). Some of the data collected and stored by organization include articles, journals and text books.

Under this study the researcher reviewed various documents such as Annual report from BoT for 14 years periods from 2000/2001 to 2013/2014, Economic bulletin report from BoT and ZIPA of different years from 2005 to 2009, Zanzibar Investment Policy (ZIP) and MKUZA 11 of 2010 to 2015 and Zanzibar Strategy for Growth and Reduction of Poverty report of 2007 (ZSGRP) from Zanzibar Planning Commission.

3.10 Data Collection Methods

The study was composed three methods for collecting data. These methods were questionnaires, interviews and documentary review. Accordingly, multiple methods in data collection have the advantage of improving validity as well as the reliability of the study findings. Also, Janesick, (1998), concludes that one advantage of adopting a case study design is that of triangulating methods and data as it was the case for this study. It can be said that, the three methods of evidence collection helped to see the same things from three different points of view which in fact improves validity of findings (Silverman, 1993)

In order to investigate the impact of monetary policy on economic growth of Zanzibar, through inflation, interest rate, exchange rate and money supply comprehensive data were gathered for the period 2000-2014. Main data source in this regard was from the Bank of Tanzania (BoT). Moreover, official websites of Ministry of Finance and BoT were also been visited in this regard.

3.10.1 Questionnaire

The semi-structured questionnaire having close-ended and open-ended questions was employed to obtain responses from senior staffs from all unit of analysis. The advantage of using open-ended questions is that respondents had opportunities for unlimited

expression of their perspectives. Closed ended-questions were also useful because they had allowed respondents to answer the given items by cross checking the categories. This questionnaire comprised of four main sections that reflected objectives of the study. A sample of the questionnaire may be depicted in the appendices.

3.10.2 Interviews

The study applied in-depth and structured interview concerning the monetary policy and economic growth of Zanzibar from defined Officers. An in-depth interview is a dialogue between a skilled interviewer and an interviewee. Its goal is to draw out rich, detailed material that can be used in analysis (Lofland & Lofland, 1995), In-depth interviews are characterized by extensive probing and open-ended questions. Typically, the researcher was prepared an interview guide that includes a list of questions or issues that explored on key issue concerning the monetary policy and economic growth. The guide helps the interviewer pace the interview and makes interviewing more systematic and comprehensive.

The data can be recorded in a wide variety of ways including audio recording, video recording or written notes. The researcher was not able to use audio recording due to fact that all respondents were not willing for recorded, but a written note was used in capturing reliable information concerning the monetary policy and economic growth when the respondents were interviewed. Thus an in-depth interview was administered to the Director of Economy to the Bank of Tanzania in Zanzibar branch.

Also the researcher was used a structured interview so as to guide respondents on the kind of information they were expected to give. The researcher held interviews with both Senior Officers from Ministry of Finance, Zanzibar Planning Commission and ZIPA, this due to fact that these officers are responsible for the implementation of budgets in ensuring that there is proper economic growth in Zanzibar, so the researcher was obtained the relevance information for making analysis concerning with the study

.Under this model the questions, their wording and their sequence are fixed and identical for every respondent (Saunders & Thornhill, 2000).

This type of interview is highly standardized and the interviewer follows a rigid procedure, asking questions in a form and order prescribed (Kothari, 2004) using structured questions is important when conducting interviews because it enhances validity of the findings.

3.10.3 Documentary Review

Documentary review involves official publications, library visits, research journals and internet search. The information obtained from these sources may be helped the researcher to expand knowledge on government audit, and supported the data obtained from the respondents.

3.11 Validity and Reliability of Data

Across disciplines, competent researchers often not only fail to report the reliability of their measures (Henson, 2001; Thompson, 1999), but also fall short of grasping the inextricable link between scale validity and effective research. At best, measurement error affects the ability to find significant results in one's data. At worst, measurement error can significantly damage the interpretability of scores or the function of a testing instrument. Reliability is the degree to which measures are free from error and therefore yield consistent results (i.e. the consistency of a measurement procedure). If a measurement device or procedure consistently assigns the same score to individuals or objects with equal values, the instrument is considered reliable. Reliability involves the consistency, or reproducibility, of test scores i.e., the degree to which one can expect relatively constant deviation scores of individuals across testing situations on the same, or parallel, testing instruments. Validity on the other hand, is the extent to which interpretation of data collected by the researcher are appropriate, meaningful and useful (Gall et al., 2005).

Reliability and validity of instrumentation should be important considerations for researchers in their investigations. The goal of achieving measurement validity and reliability can be accomplished partly by a push for quality item writing, an insistence on reporting reliability data across studies, sound theoretical bases for construct measurement and the accurate operationalization of constructs.

This objective imparts a direct responsibility on behalf of all examiners in a given field, i.e. it is essential for researchers to actively measure the reliability and validity of instrument scores over populations and time. The continual nature of both these processes should not be undermined or overlooked. Moreover, it is critical for this type of information to be easily accessible in order to facilitate the understanding and sharing of this knowledge. Without credible instrumentation that is monitored and measured over time, research results can become meaningless.

To ensure validity and reliability of data, a visit were made to BoT headquarter in order to get comprehensive information about the macroeconomic indicators that will be expected to be studied. Also, it will help the researcher to get a clearance letter form from the authority.

- In order to ensure the validity and reliability, the researcher done by the following Multiple methods was used to collect data and information (questionnaires, interviews and documentary review) and from different units of analysis in order to confirm data source and reduce bias and thus improve validity of data and information obtained.
- Pilot testing of instruments was done before being administered, after which some modification was done to eliminate ambiguities in the instruments. This in turn brought about consistency in understanding the questions by all respondents.
- Data was collected by the main researcher alone. This gives the researcher ability to avoid reliability error which might arise due to observer error and bias.

3.12 Data Analysis Methods

Both, qualitative and quantitative data were analyzed and converted into tables, percentage, figures and frequencies, using Statistical Package for Social Sciences (SPSS) Computer Software. The study was also used Model Development in developing the relationship between monetary policy instruments and the Gross Domestic Products (GDP) of Zanzibar where multiple regression analysis was applied. Both regression analysis and correlation analysis were applied to test hypothesis as well as determining the existence of any relationship between the monetary policy instruments and GDP. The objective is to determine the impact of each of the monetary policy instruments on the gross domestic product of Zanzibar for the period under review.

Study data was analyzed using Multiple Regression Model and Correlation Module by which mathematically can be represented as follow:-

$GDPt = \beta o + \beta 1\ INTRATt + \beta 2\ MSt + \beta 3\ ERt + \beta 4\ IRt + \mu t$

Where

GDPt	= Gross Domestic Product in year t
INTRATt	= Interest Rate in year t
MSt	= Money Supply in year t
ERt	= Exchange Rate in year t
IRt	= Inflation Rate
Bo	= intercept parameter,
β1- β4	= Betas/ the regression coefficients or the slope parameters.
μt	= the stochastic term of the regression.

It should however be noted that the disturbance term μt in the model has the assumption of randomness, zero mean, constant variance and normal in distribution. Others include the assumption that there is no covariance between the disturbance terms of different observations, no covariance between the disturbance term and the explanatory variables, no covariance between explanatory variables (No multi-collinearity), among others.

CHAPTER FOUR
PRESENTATION OF FINDINGS

4.1 Introduction

This chapter presents the findings of the study, it started by presenting the demographic characteristics of the respondents focuses on the sex, educational background and experience in monetary policy and economic growth matters for the first part and second part present the impact of the monetary policy in economic growth of Zanzibar.

4.2 Demographic Characteristics of Respondents

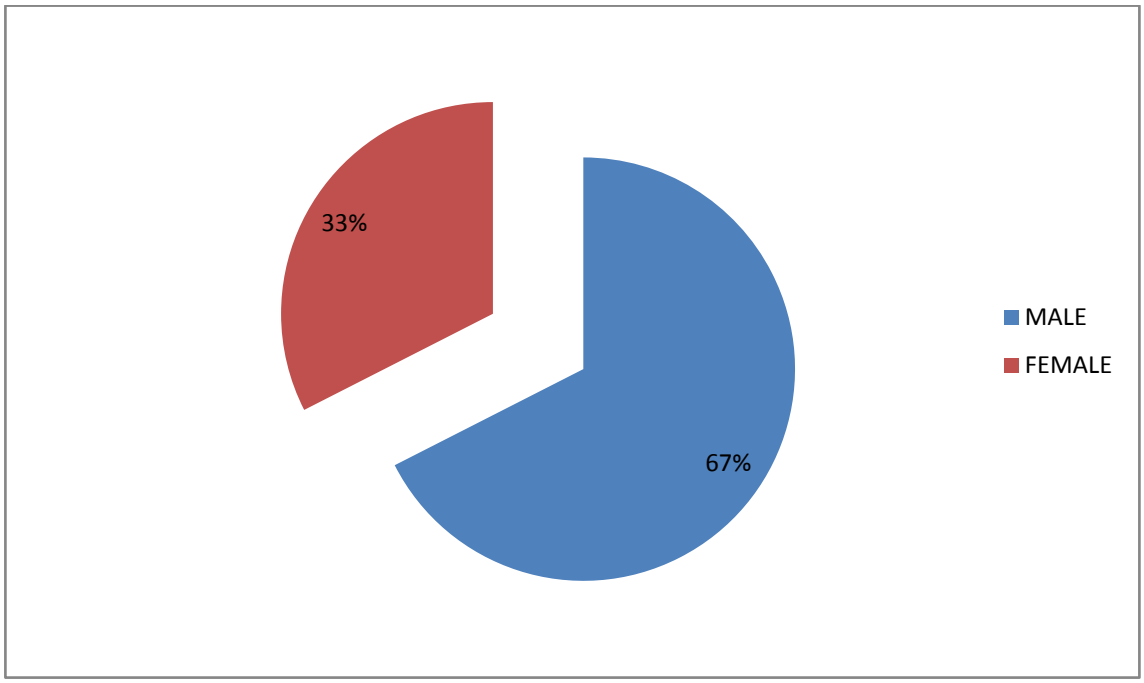
The demography shows the factual phenomena of the study and its validity and reliability of information. Demographic information provides data regarding research participants and is necessary for the determination of whether the individuals in a particular study are a representative sample of the target population for generalization purposes (Salkind, 2010). It mainly focuses on the sex, educational background and experience of the respondent in monetary policy and Economic growth matter.

4.2.1 Sex of the respondents

Sex is the mostly important in this study because male and female participate in government audit activities to ensure that there is accountability on the utilization of the public resources.

In its real sense the activities conducted by male has more impact on monetary policy and economic growth than that of female because male has more confidence by nature as compared with female on conducting the monetary policy and economic growth, therefore this study showed that the male components for Monetary Policy with the majority percentage of 67 % (54/80) while the female components for Monetary Policy is only 33 % (26/80). This is because in Zanzibar male employees are more than female employees.

Figure 4.1 Sex respondent



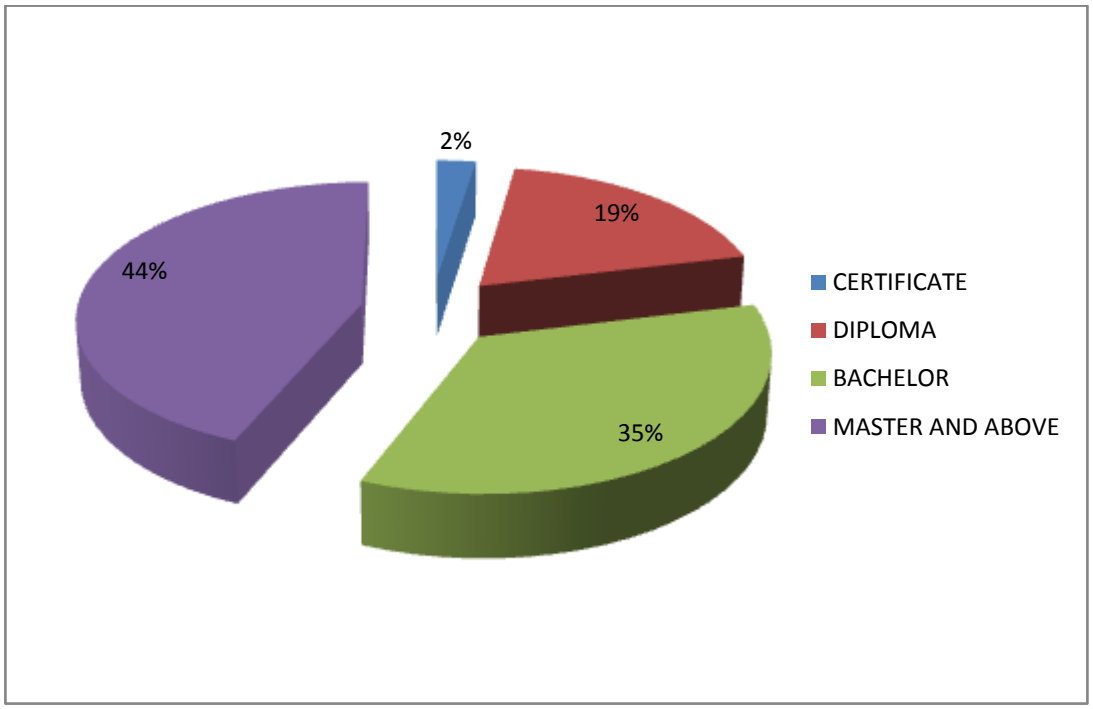
Source: Field data, 2015

4.2.2 Education Level of Respondents

Education is the major contribution on finding the better use of any aspect. If the participants in the organization have enough knowledge concerning the monetary policy and economic growth, they contribute more idea concerning the issues which are addressed to them. The study wanted to show the professional capability in exercising the monetary policy variables and economic growth.

The education level for those participate in this study showed Certificate level is 2% (2/80) while Diploma level represents 19% of the respondents (15/80), Bachelor 35% (28/80) and Master and above 44% (35/80), this indicate that most of the participate in the study are Masters this because the Master level of participants who is the front line in monetary policy and economic growth as compared with the other education level of the participants.

Figure 4.2 Education level for Respondents



Source: Field data, 2015

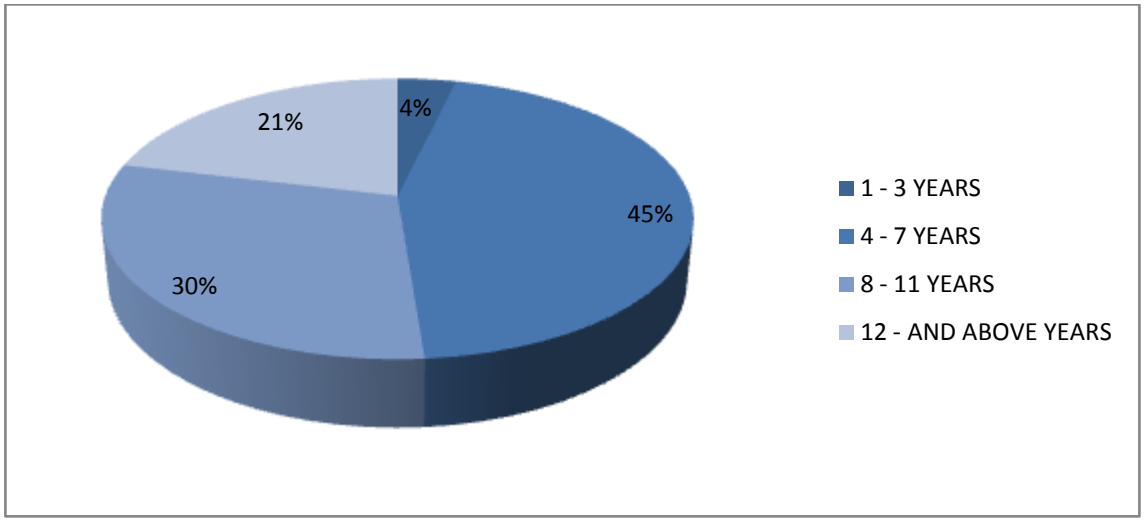
4.2.3 Working Experience of Respondents

The issue of experience has great role in every organization because any organization has given out practically of the activities experienced in the area in which the employees are attached with. In my study the experience of respondents is important to substantiate the selection of individuals through unit of analysis.

The study indicated that the majority of the respondents have worked experienced for 4 to 7 years 36/80 (45%) who are engaged in the filling the questionnaire also helped the researcher to acquire necessary information about the monetary policy and economic growth, while 24/80 (30%) of the of the respondent are followed whose worked experience for 8 to 11 years next come the respondents whose worked experienced is 12 and above years which is 17/80 (21%) and 3/80 (4%) of the respondents who engaged in the answering the questionnaires has working experience of 1 – 3 years.

This indicate that the participants who answer the questionnaire concerning the monetary policy and economic growth of Zanzibar has the large number of working experience are those participants who range between 4 to 7 years.

Figure 4.3 Worked Experiences for Participants



Source: Field data, 2015

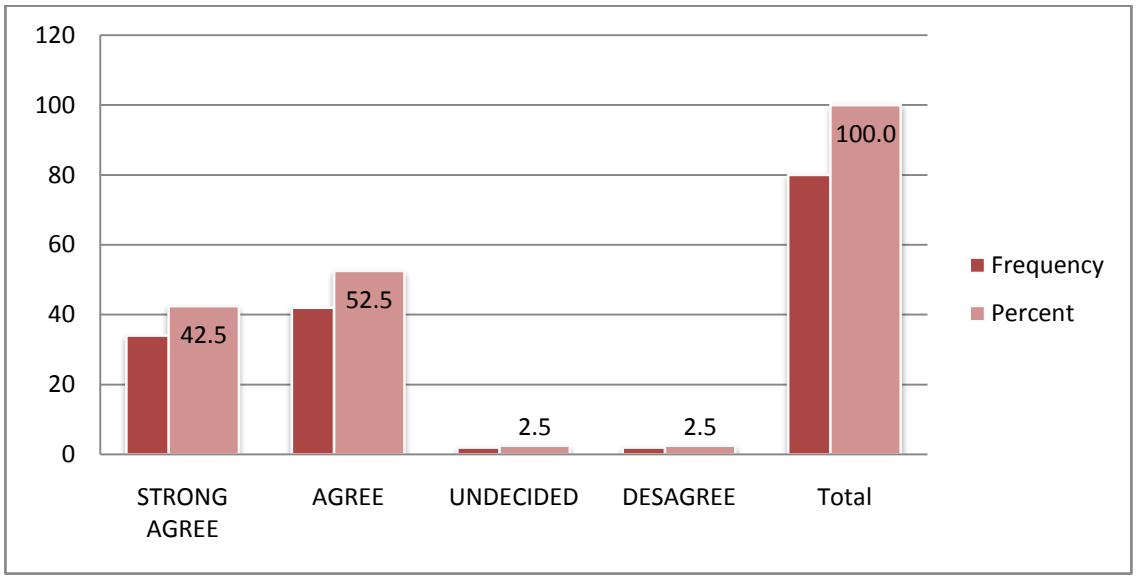
4.3 The variables of monetary policy their significantly contribution in economic growth of Zanzibar.

The first objective of the study was the contribution of monetary policy variables to economic growth of Zanzibar, under this objective, the respondents were assessed on the various items pertaining contribution of the monetary policy on economic growth of Zanzibar.

4.3.1 Monetary policy instruments influences economic growth of Zanzibar.

In this aspect the researcher was interested to understand the influence of monetary policy instruments (interest rate, exchange rate, money supply and inflation rate) in the growth of Zanzibar Domestic Growth Product (GDP). The result of this question is obtained on the figure 4.4 below.

Figure 4.4 Monetary Policy Instrument influences economic growth of Zanzibar.

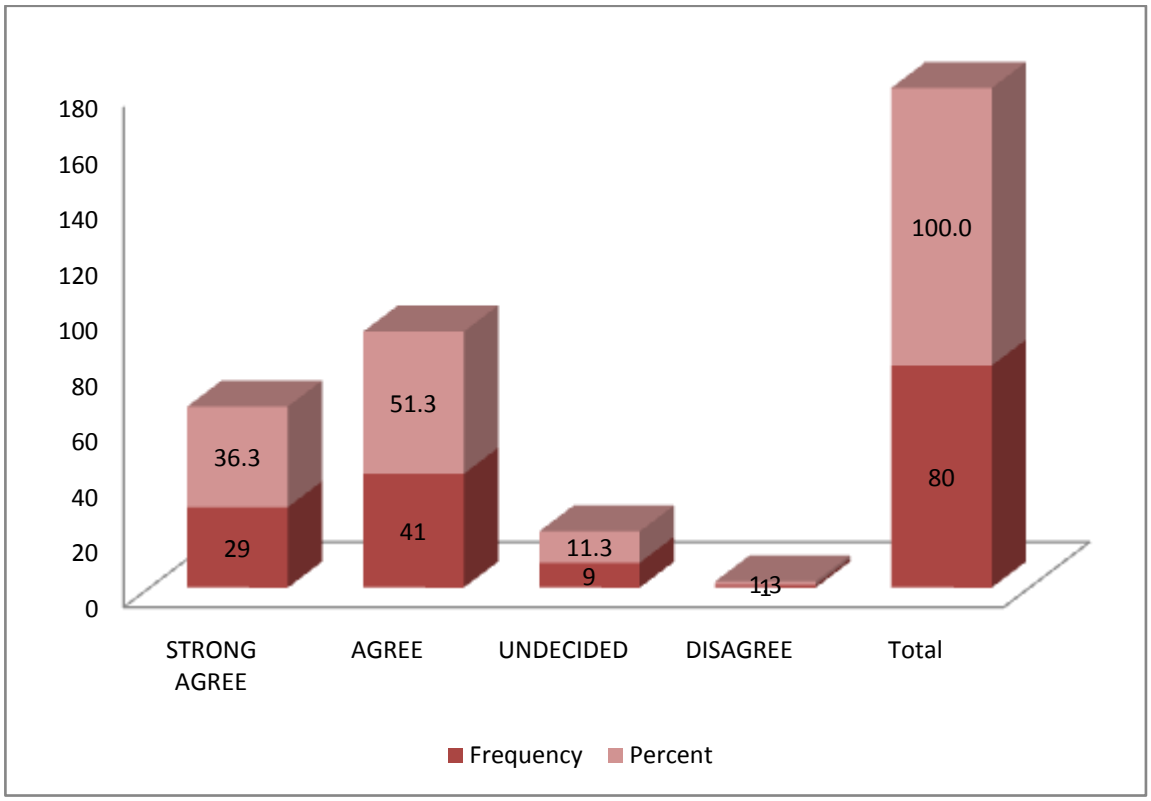


Source: Field data, 2015

4.3.2 Monetary Policy Variables play important roles in a sustainable Economic Growth.

In this aspect the researcher was intended to understand either the monetary policy variables play the important roles in a sustainable economic growth of Zanzibar, the result of this question is shown on the figure 4.5 below.

Figure 4.5 Monetary Policy Instruments play important roles on economic growth of Zanzibar.

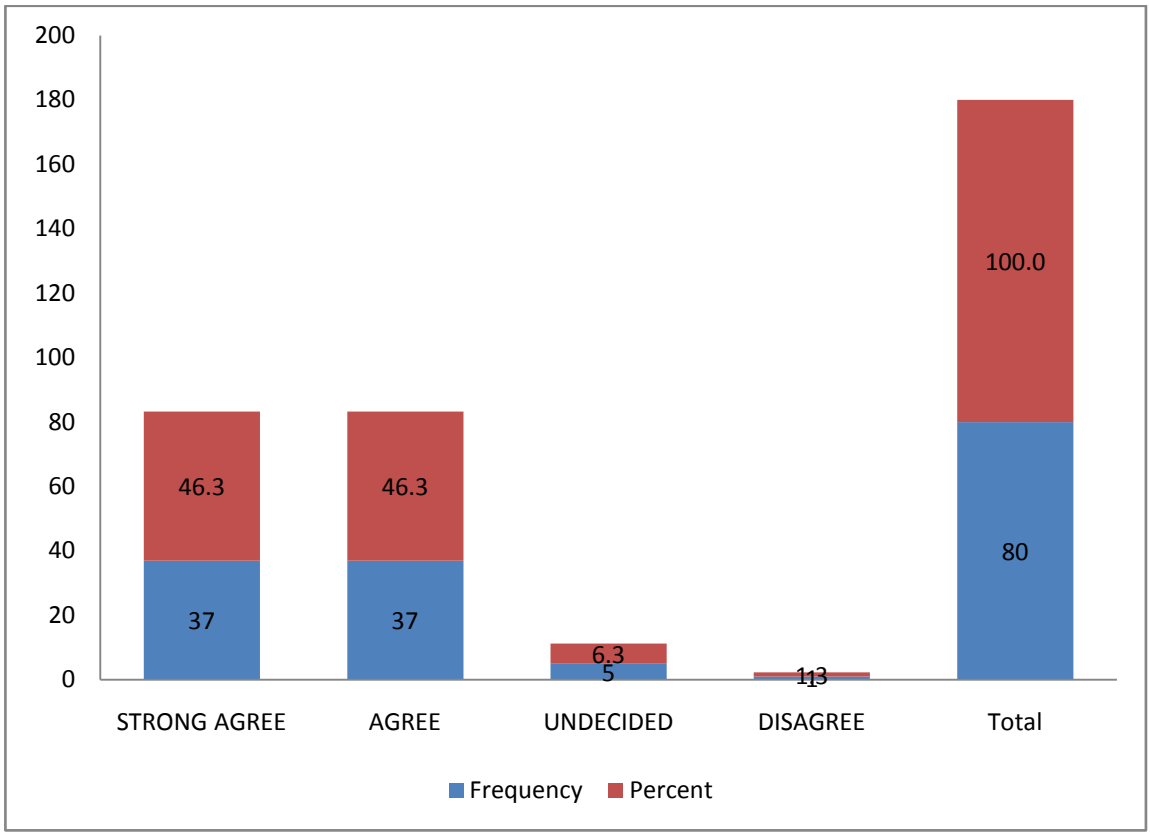


Source: Field data, 2015

4.3.3 Monetary Policy Variables are the essential tools of achieving macroeconomic stability.

Among the questions asked to the respondents under this objective was whether the monetary policy variables are the essential tools of achieving macroeconomic stability or not, the figure 4.6 below provides the answer for this question.

Figure 4.6 Monetary Policy Variables are the essential tools of achieving macroeconomic stability.



Source: Field data, 2015

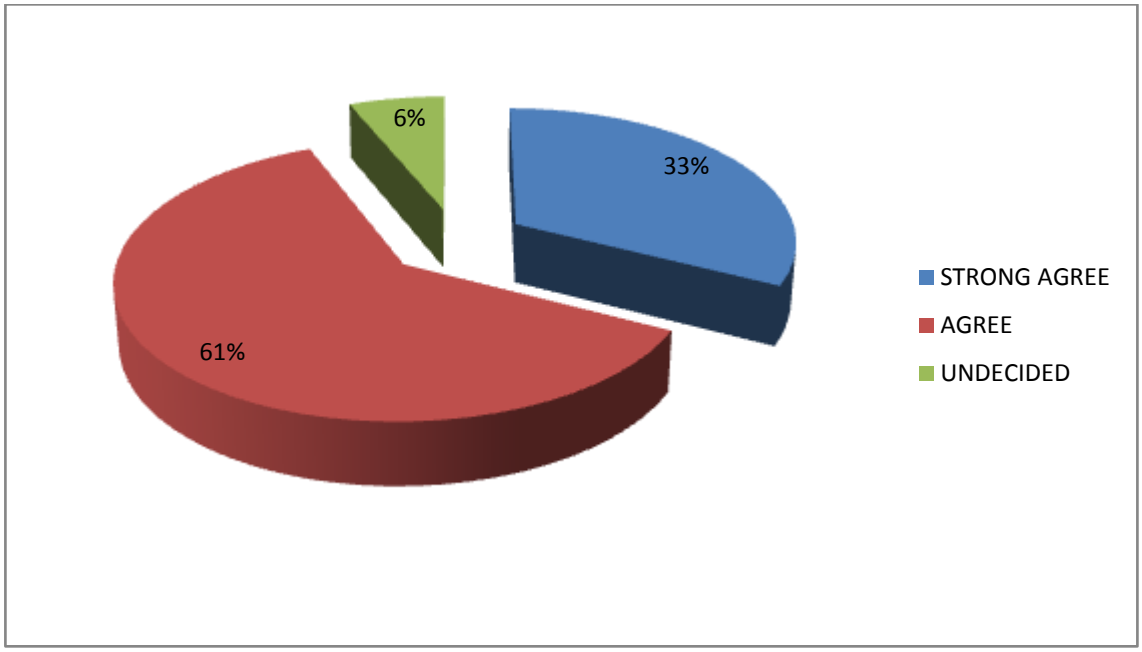
4.4 The relationship between Monetary Policy Variables and Economic Growth.

The second objective of the study was assessed the relationship between monetary policy variables and economic growth of Zanzibar. Under this objective, the respondents were assessed in order to whether there is a relationship between monetary policy variables and economic growth or not.

4.4.1 Monetary Policy Variables has a significant relationship with Growth Domestic Product

Under this the researcher has asked this question to all analysis units consist BoT, Ministry of Finance, Zanzibar Planning Commission and Zanzibar Investment Promotion Authority and most of the respondents from these entire departments agree that there is significant relationship between monetary policy variables and growth domestic product of Zanzibar.

Figure 4.7 Monetary Policy Variables has significant relationship with growth domestic product.



Source: Field data, 2015

4.5 Challenges encountered during the implementation of monetary policy objectives.

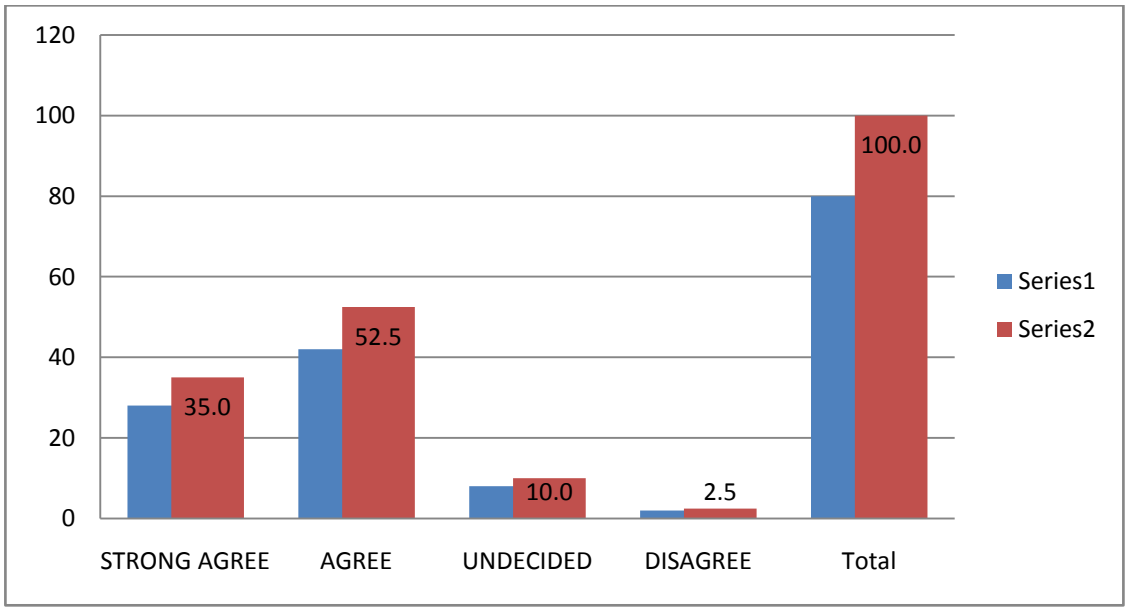
The third objective of the study was examined the challenges encountered during the implementation of monetary policy objectives. Under this aspect the study investigated the respondents' opinion on challenges encountered during the implementation of

monetary policy objectives. The following challenges are asked to respondents for the purposes of seeing whether affects the implementation of monetary policy or not economic growth.

4.5.1 Lack of knowledge and inadequate number of staffs on monetary policy matter may lead the poor economic growth.

On determining the challenges faced the monetary policy authority in conducting the monetary policy variables and economic growth the researcher has asked this question to the respondents from all departments selected on this research in order to see whether this is the among the challenges that hinder the monetary policy authority on conducting their roles on monetary policy and economic growth of a country, the answer of this are shown on the figure 4.8 below.

Figure 4.8 Lack of knowledge and inadequate number of skilled staffs on monetary policy matters may lead to poor economic growth.

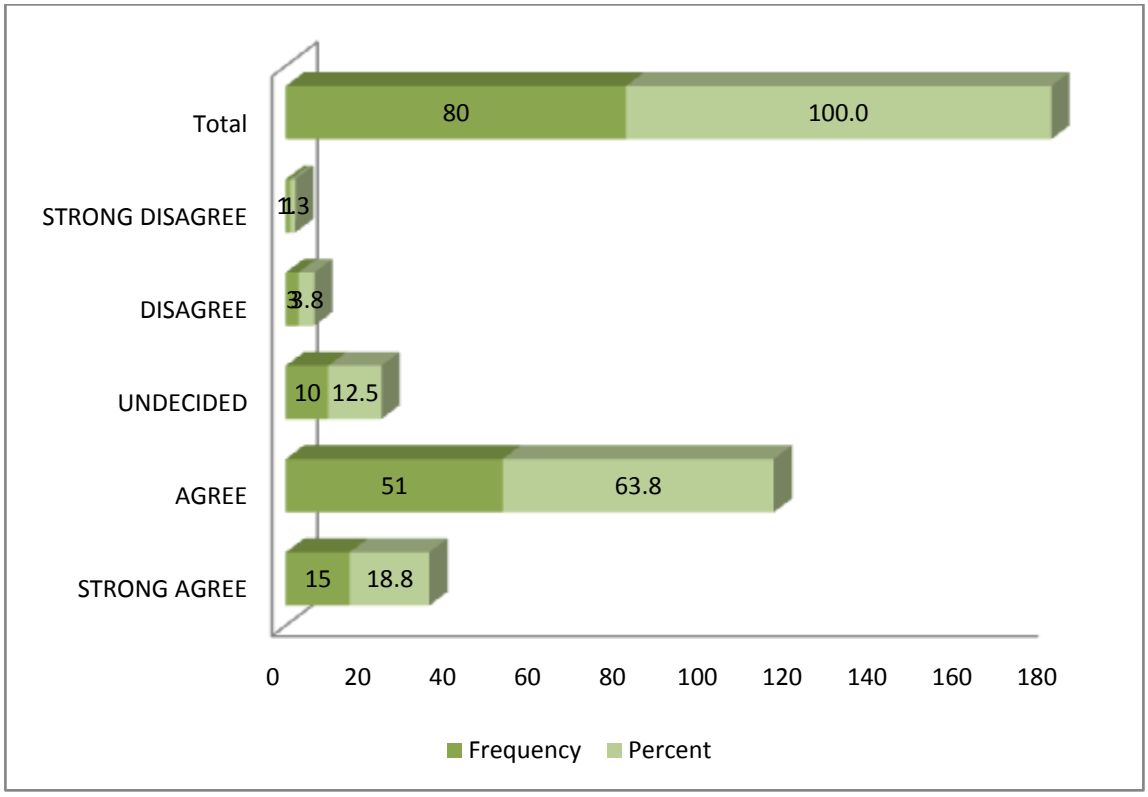


Source: Field data, 2015

4.5.2 Lack of an assessment of the economic situation may hinder the monetary policy implementation.

The researcher has asked this question to all the respondents of this study in order to see whether this is among the challenges that hinder the monetary policy authority on implementation of their duties regarding the monetary policy variables and economic growth, and the study provided the answer from the respondents as shown on the figure 4.9 below.

Figure 4.9 Lack of an assessment of the economic situation may hinder the implementation of monetary policy objectives.

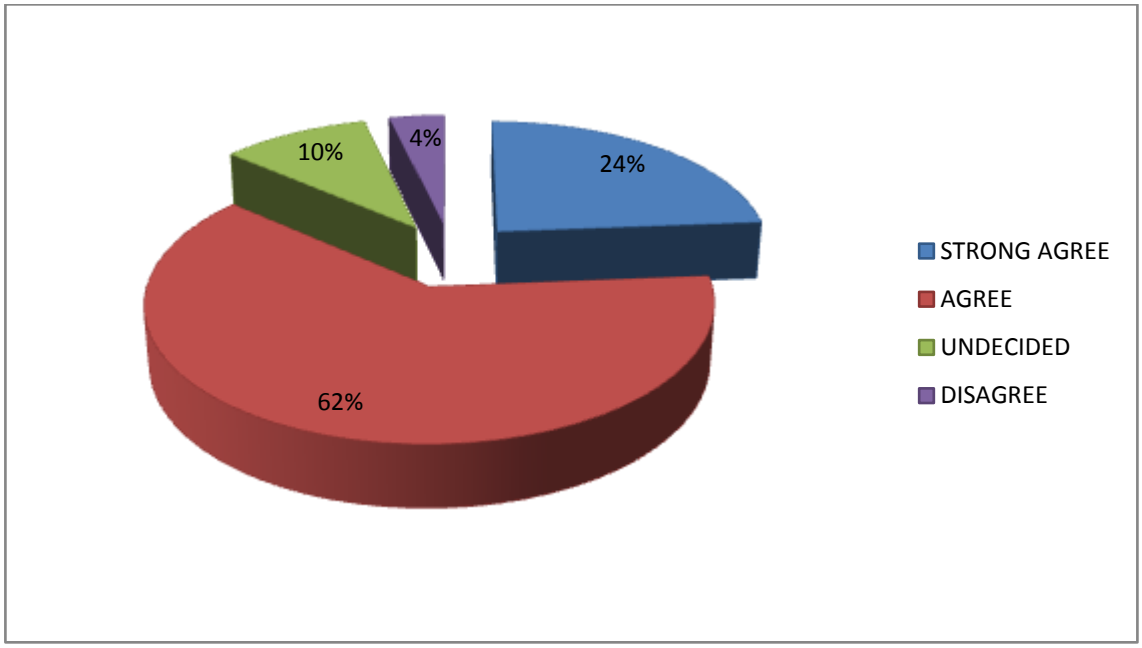


Source: Field data, 2015

4.5.3 Lack of estimating the inflationary pressure by the monetary policy authority may hinder the economic growth.

Under this question which presented to the respondents of all selected departments of this study has the intention to see whether is among the challenges that face the monetary policy authority on conducting the monetary policy variables and economic growth or not, the respondents provides the answers which obtained on the figure 4.10 below.

Figure 4.10 Lack of an estimating the inflationary pressure may hinder the economic growth.



Source: Field data, 2015

4.6 Empirical Presentation of the study

According to the nature of the data gathered by the researcher it come in to the light that there is a need for some data to be processed by using regression and correlation module for the purpose of having empirical evidence of the hypothesis and certain objectives of the research concerning the monetary policy and economic growth of Zanzibar.

4.6.1 Presentation of data by using Regression Module

Multiple Regressions is a statistical method for estimating the relationship between a dependent variable (DV) and two or more independent (or predictor) variables (IVs), it can be used to address a variety research questions.

Regression is the attempt to explain the variation in a dependent variable using the variation in independent variables; regression is thus an explanation of causation. If the independent variable(s) sufficiently explain the variation in the dependent variable, the model can be used for prediction.

There are three main types of multiple regression analyses:

- **Standard or simultaneous:** All independent variables are entered together at once in analysis
- **Hierarchical or sequential:** Independent Variables are entered in stages
- **Stepwise:** independent variables entered according to some order, By size or correlation with dependent variable and in order of significance.

4.6.1.1 Assumptions of the regression analysis:

- **Multicollinearity and singularity:** This refers to the relationship among the independent variables. Multiple regressions don't like multicollinearity or singularity.

  Multicollinearity exists when the independent variables are highly correlated while Singularity occurs when one independent variable is actually a combination of other independent variables (e.g. when both subscale scores and the total score of a scale are included).
- **Outliers:** Multiple regressions is very sensitive to outliers (very high or very low scores it check for extreme scores before you start analysis the data for both variables either dependent or independent. Outliers can either be deleted from the data set or, replaced by a standardized score for that variable
- **Normality & linearity:** These all refer to various aspects of the distribution of scores and the nature of the underlying relationship between the variables, variables

need to be normally distributed, especially dependent variable. There should liner relationship between Independent Variables and Dependent Variable.

4.6.1.2 Assessing for Normality and transformation of the data

Assessing the normality of the data is the process of determining whether or not the distribution of values for a variable complies with the definition of a normal curve.

In statistics, **normality tests** are used to determine if a data set is well - modelled by a normal distribution and to compute how likely it is for a random variable underlying the data set to be normally distributed.

The assessment of the normality can be done by histograms, normality plot and statistical test.

If the variable is normally distributed, we expect the greatest frequency of values to occur in the centre of the distribution, with decreasing frequency for values away from the centre.

The normality distribution should have the following characteristics.

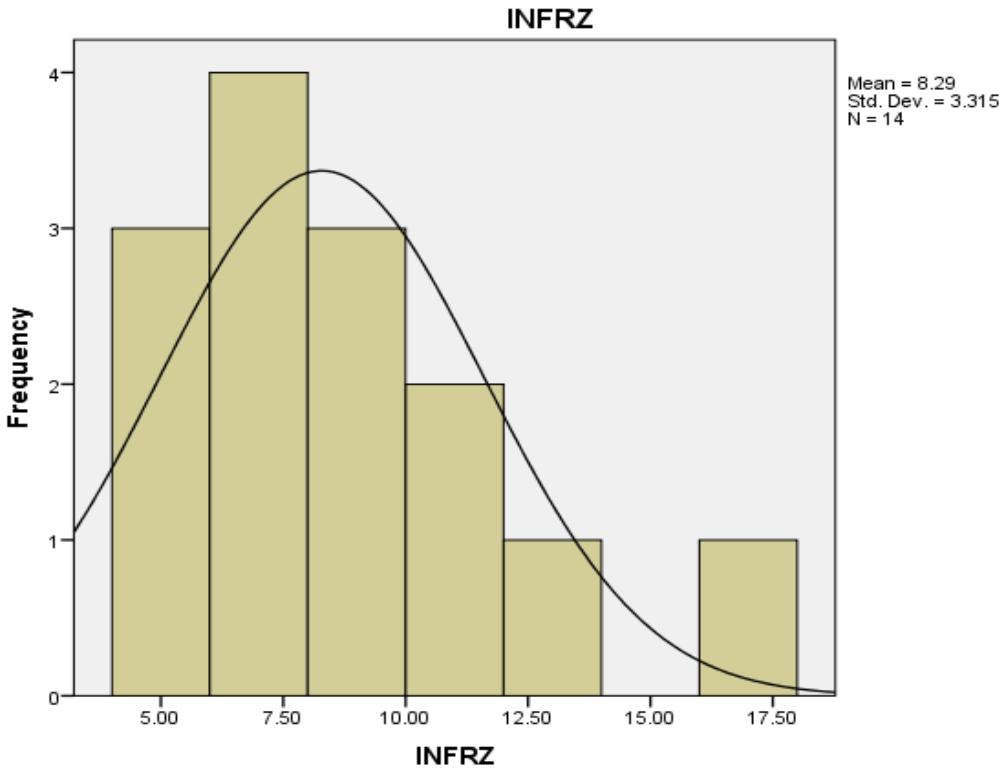
i. The histogram should be appeared a bell shaped.
ii. The mean, median, and mode should be similar
iii. 2/3 of observations lie within 1 standard deviation of the mean or 95% of observations lie within 2 standard deviation of the mean
iv. A normal probability plot is approximately linear
v. In addition, a normally distributed variable will be symmetric, showing the same proportion of cases in the left and right tails of the distribution

Transformation of data the process of converting the variables which do not fall in a nice, normally distributed curve in to well normality distributed curve.

The researcher has tested the data by using the histograms method and found that the data of interest rate and inflation rate was not in a normal distribution curve.

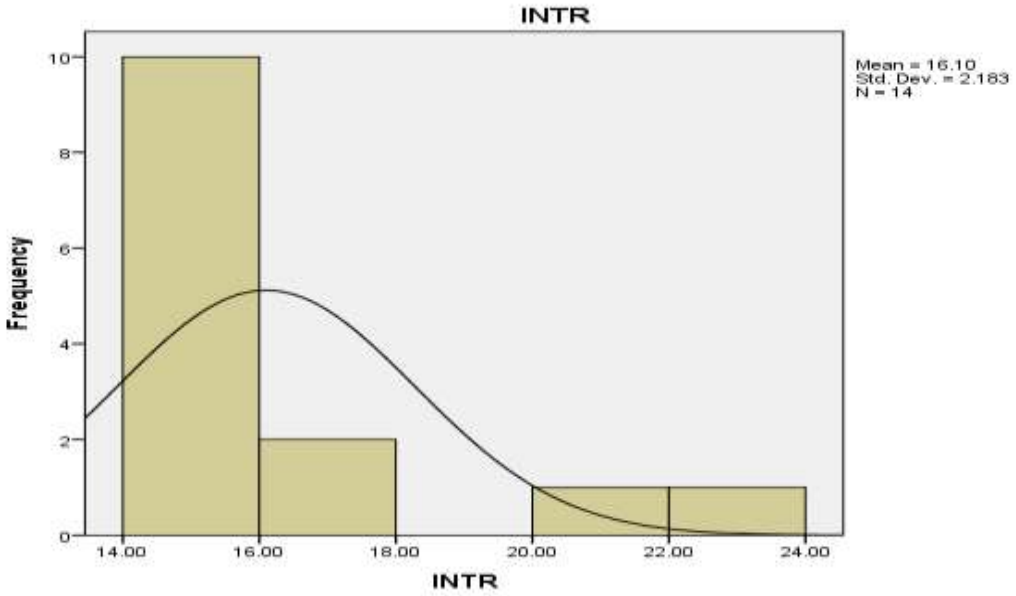
According to the SPSS that the data to be analyzed should be in a normally distributed curve the researcher has no way except transformed the data in to well normally distributed as shown on the figures below.

Figure 4.11 Non normality distributions of inflation rate before transformation



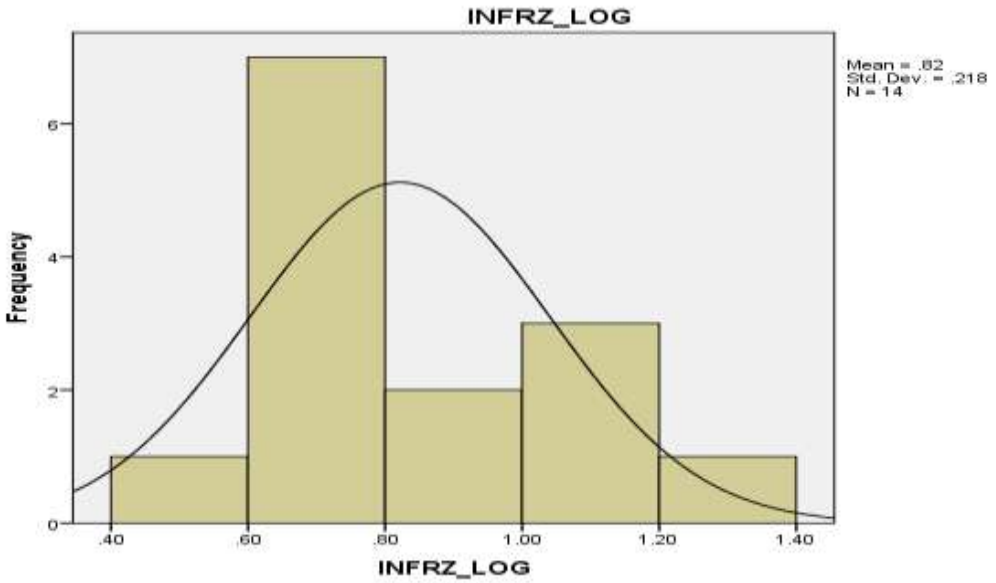
Source: Field data, 2015

Figure 4.12 Non normality distributions of interest rate before transformation



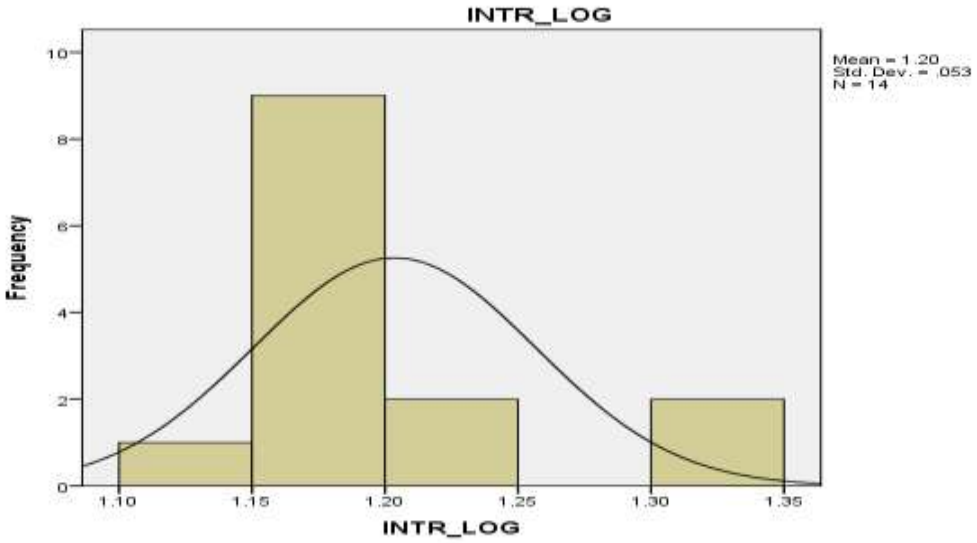
Source: Field data, 2015

Figure 4.13 Normality distributions of inflation rate after transformation



Source: Field data, 2015

Figure 4.14 Normality distributions of interest rate after transformation



Source: Field data, 2015

4.6.2 Module summery and interpretation

According to the result shown on the table 4.1 below the researcher found that the module used to analysed the data obtained from the Bot was not good enough because it shows the recorded only 21.8% of the R Square while the base percentage of the module required to be 50% of the R Square and this poorest of the module may be due to the few numbers of years taken to this study but also these few year is due to that the researcher could not found the recorded data of the variable from Bot website or Bot Zanzibar branch.

Table 4.1: Regression module summery

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.467a	0.218	-0.129	1.50712

Predictors: (Constant), INTR_LOG, MS, INFRZ_LOG, EXRT

Source: Field data, 2015

Where:

INTR_LOG = Interest Rate Tanzania after transformation.

MS = Money Supply

INFRZ_LOG = Inflation rate for Zanzibar after transformation.

EXRT = Exchange rate for Tanzania.

4.6.3 Relationship between Monetary Policy Instruments and Economic Growth

In this study, mathematical relationships between the variables are established. The study presented the available data on Gross Domestic Product (GDP), Money Supply (MS), Exchange Rate (EXRT), Inflation Rate (INFR) and Interest Rate were collected and used for purpose of this analysis as shown on the table 4.2 below.

Table 4.2: Relationship between monetary policy variables and economic growth

		GDP Z	MS	EXRT	INFRZ_LOG	INTR_LOG
GDP Z	Pearson Correlation	1	-0.265	0.013	-0.16	-0.034
	Sig. (2-tailed)		0.36	0.966	0.585	0.908
	N	14	14	14	14	14
MS	Pearson Correlation	-0.265	1	-0.47	-0.479	-0.151
	Sig. (2-tailed)	0.36		0.09	0.083	0.606
	N	14	14	14	14	14
EXRT	Pearson Correlation	0.013	-0.47	1	.649*	-0.455
	Sig. (2-tailed)	0.966	0.09		0.012	0.102
	N	14	14	14	14	14
INFRZ_LOG	Pearson Correlation	-0.16	-0.479	.649*	1	-0.218
	Sig. (2-tailed)	0.585	0.083	0.012		0.453
	N	14	14	14	14	14
INTR_LOG	Pearson Correlation	-0.034	-0.151	-0.455	-0.218	1
	Sig. (2-tailed)	0.908	0.606	0.102	0.453	
	N	14	14	14	14	14
*. Correlation is significant at the 0.05 level (2-tailed).						

Source: Field data, 2015

Where:

GDPZ	=	Gross Domestic Product for Zanzibar.
MS	=	Money Supply.
EXRT	=	Exchange Rate for Tanzania.
INFRZ_LOG	=	Inflation Rate for Zanzibar after transformation.
INTR_LOG	=	Interest Rate after transformation.
N	=	Number of years.

4.6.4 The variables of monetary policy their significantly contribution in Economic Growth of Zanzibar

In this study, the researcher mathematical tried to shows the contribution of each monetary policy variables to economic growth of Zanzibar. The result of that contribution for each variable is explained and shown on the table 4.3 below.

Table 4.3 contribution of monetary policy to economic growth

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	21.006	15.772		1.332	0.216
	MS	-0.194	0.139	-0.541	-1.395	0.197
	EXRT	0	0.003	-0.08	-0.169	0.869
	INFRZ_LOG	-2.733	2.606	-0.421	-1.049	0.322
	INTR_LOG	-6.528	9.991	-0.244	-0.653	0.53
a. Dependent Variable: GDP Z						

Source: Field data, 2015

Where:

GDPZ	=	Gross Domestic Product for Zanzibar.
MS	=	Money Supply.
EXRT	=	Exchange Rate for Tanzania.
INFRZ_LOG	=	Inflation Rate for Zanzibar after transformation.
INTR_LOG	=	Interest Rate after transformation.

CHAPTER FIVE
DISCUSSION OF FINDINGS

5.1 Introduction

This chapter the researcher found the evidence of the research topic which is the monetary policy variables and economic growth of Zanzibar by discussed the findings which obtained from different data sources.

According to the nature of some data gathered by the researcher it come in to the light that there is a need for that data to be processed by using regression and correlation module for the purpose of having empirical evidence.

Also some objectives of the study like assessing the relationship between monetary policy instrument and economic growth, contribution of monetary policy instruments to economic growth and the hypothesis of the research which is monetary policy variables significantly influence the economic growth of Zanzibar need to be tested by either regression analysis correlation module.

Under this part the researcher discuss the empirical evidence of data founded from the questionnaires which were asked from the different respondents and different department which includes the staffs from Bot's, Zanzibar Planning Commission, Ministry of Finance and Zanzibar Investment Promotion Authority and the research concluded the following findings.

The researcher used both theoretical and empirical research techniques in analyzing the impact of the monetary policy in economic growth of Zanzibar. In doing so, specific research objectives and research hypotheses have been used as guide which consists of:

- To identify the contribution of monetary policy in Zanzibar economic growth.
- To determine the relationship between monetary policy variables and economic growth.
- To identify challenges encountered during the implementation of monetary policy objectives

- Monetary policy variables significantly influence economic growth.

5.2 Empirical and Theoretical Findings

Under this part the researcher not only discuss the empirical data founded from the questionnaires which were asked from the different respondents and different department which includes the staffs from Bot's, Zanzibar Planning Commission, Ministry of Finance and Zanzibar Investment Promotion Authority but also the researcher mathematical tried to shows the contribution of each monetary policy variables to economic growth of Zanzibar. The result of that contribution for each variable is explained and shown on the table 4.3 on chapter four.

According to those questionnaires the research concluded the findings on the following objectives of the research.

5.2.1 The variables of monetary policy their significantly contribution in Economic Growth of Zanzibar.

The first objective of the study was the contribution of monetary policy variables to economic growth of Zanzibar, under this objective, the respondents were assessed on the various items pertaining contribution of the monetary policy on economic growth of Zanzibar.

Concerning to this objective the researcher needed to prove whether the monetary policy instrument has any contribution to economic growth of Zanzibar or not, the researcher formulated many questions asked to the respondents from all selected departments which are Bank of Tanzania, Ministry of Finance, Zanzibar Planning Commission and Zanzibar Investments Promotion Authority but the researcher concluded on the following aspects.

Firstly, the study discussed on how monetary policy variables play important roles in a sustainable economic growth. According to the findings the researcher found that the monetary policy variables play the important roles in a sustainable economic growth of

Zanzibar. The results shown on the figure 4.5 above conclude that the study revealed that 36.3 percent of respondents from all four department were strongly agreed that monetary policy instruments play important roles on economic growth, but 51.3 percent of the respondents agreed that monetary policy variables plays important roles on Zanzibar economic growth and lastly contribute to that economy and only 12.4 percent from all staffs who answer the questionnaires from all department were disagreed that the monetary policy variables play important roles in a sustainable economic growth.

Secondly, the researcher described that monetary Policy Variables are the essential tools of achieving macroeconomic stability. Figure 4.6 above summarised that many of the respondents from BoT, Ministry of Finance, Zanzibar Planning Commission and Zanzibar Investment Promotion Authority which form 46.3% percent for strong agree and also 46.3% for agree were agreed that the monetary policy variables are the essentials tools of achieving macroeconomic stability and only 6.3% and 1.1% of the entire respondents from all departments were undecided and disagreed that the monetary policy variables are the essential tools of achieving macroeconomic stability.

Model Analysis and interpretation

Finally, the researcher mathematically showed the contribution of each monetary policy instruments to economic growth. The table 4.3 on the chapter four is the result of the static regression analysis where Gross Domestic Product (GDP) was regressed on Inflation Rate, Exchange Rate, Interest Rate and Money Supply. The regression result shows that there is minor contribution of the monetary policy variables to economic Growth of Zanzibar in aggregate because the significant intervals of all variables are above the base of the significant interval which is 0.05 (5%).

However, the researcher found that there is a little contribution of monetary policy variable to the economic growth of Zanzibar. The regression result shows that Money Supply (MS) has a high contribution that explaining the dependent variable compared to

others variables where it recorded high coefficient beta of 0 .541 and low level of significant interval of 0.197 followed by the inflation rate which has the coefficient beta of 0.421 and the significant level of 0.322, the interest rate is the third variables on the contribution of the economic growth of Zanzibar which recorded the coefficient beta of 0.244 and its level of significant is 0.530 and exchange rate is the last variable on the contribution on the economic growth of Zanzibar because it recorded the low coefficient of beta which is 0.080 and has recorded high level of significant compared to other variables which is 0.869.

In conclusion the empirical evidence from the study revealed that monetary policy variables has insignificant contribution to economic growth of Zanzibar because the significant level of those variables are above the base of 5%, however the money supply had a high contribution towards economic growth compared to others as shown on the table 4.3 above on chapter four.

5.2.2 The relationship between Monetary Policy Variables and Economic Growth.

The second objective of the study was assessed the relationship between monetary policy variables and economic growth of Zanzibar. Under this objective, the respondents were assessed in order to overlook whether there is a relationship between monetary policy variables and economic growth or not.

According to this question to the respondents the researcher found that more than fifty percent of the entire respondent who answered and returned the questionnaire from all four departments agreed that the monetary policy variable has the significant relationship with the growth domestic product, 61% of the respondents agree that the monetary policy variable has significant relationship with economic growth, while 33% of the respondents from all unit of analysis strong agree that monetary policy variable has significant relationship with growth domestic product and the rest of the ratio which is only 6% were undecided that the monetary policy instrument has significantly relationship with growth domestic product as shown on the figure 4.7 above.

Module analysis and interpretation

Considering the uncertainty quality of data used in the study, the level of statistical significance chosen for testing hypothesis is at 0.05 (5%) of confidence level. The regression result shows there is a weaker linear and proportionate relationship between GDP and the explanatory variables as shown on the table 4.2 above. The explanatory variables identified are the monetary policy variables of Money Supply, Interest Rate, Inflation Rate and Exchange Rate. The sign of the co-efficient reflecting a negative relationship with economic growth and disconfirms to prior expectations of Null Hypothesis which is built on assumption that *Monetary policy instruments significantly influence economic growth of Zanzibar.*

Table 4.2 above summarised that the statistical evidence emanating from the study of Pearson Correlation shows that the values of Money Supply, Inflation Rate, Interest Rate and Exchange Rate as the following -0.265, -0.160, -0.034 and 0.0127 respectively which is below the standard level of coefficient required which is 0.5 to 1 and also their significant level is above the required significant level of 0.05 (5%). In other words MS, IFR, INTR and EXRT were statistically uncorrelated and insignificant and so there were no significant impact on economic growth and development of Zanzibar.

In conclusion the empirical finding the researcher not only concluded that there is a less relationship between the monetary policy variables and economic growth of Zanzibar but also the researcher confirmed that the monetary policy variables are not significantly influences the economic growth and due to that the researcher rejected the null hypothesis which state that *'monetary policy variables significantly influences the economic growth'.*

5.2.3 Challenges encountered during the implementation of monetary policy objectives

The third objective of the study was examined the challenges encountered during the implementation of monetary policy objectives. Under this aspect the study investigated the respondents' opinion on challenges encountered during the implementation of monetary policy objectives. The following challenges are asked to respondents for the purposes of seeing whether affects the implementation of monetary policy or not economic growth.

5.2.3.1 Lack of knowledge and inadequate number of staffs on monetary policy matter may lead the poor economic growth.

Under this the researcher found that the lack of knowledge and inadequate number of skilled staff is the most pressing constraints encountered during the implementation of monetary policy objectives as shown on the figure 4.8 which highlighted that 35 percent and 52.5 percent of respondents from Bot's, Zanzibar Planning Commission, Ministry of Finance and Zanzibar Investment Promotion Authority agreed and strongly agree on this, while 10 percent of the respondents were undecided and only 2.5percent disagreed that the lack of knowledge and inadequate skilled staffs on monetary policy matters may lead to poor economic growth as shown on figure 4.8 above.

5.2.3.2 Lack of an assessment of the economic situation may hinder the monetary policy implementation.

According to the respondents the researcher found that more than half of the result concerning the lack of an assessment of the economic situation may hinder the monetary policy implementation 63.8% of the respondents agreed with this and 18.8% of the respondents are strong agreed, but 12.5% were undecided that the lack of an economic situation assessment may hinder the monetary policy implementation and 3.8% and 1.3% only of the entire respondents were disagreed and strong disagreed that the lack of

the economic situation assessment may hinder the monetary policy implementation as shown on the figure 4.9 above.

5.2.3.3 Lack of estimating the inflationary pressure by the monetary policy authority may hinder the economic growth.

Under this challenges 62 percent of respondents agreed that the lack of the estimating the inflationary pressures may hinder the monetary policy implementation and 24 percent strong agreed with the challenges, but 10 percent respondents were undecided and only 4 percent of the entire respondents disagreed that the lack of the inflationary pressure by the monetary authority may hinder the economic growth as summarised on figure 4.10 above.

5.2.3.4 Other challenges face the monetary policy Authority during the implementation of the monetary policy objectives.

From the start of the crisis in summer 2007, monetary policy has faced a number of challenges, linked particularly to the interaction between the development of the real economy and the turbulence in the financial markets. This has forced central banks to operate not only by way of conventional measures, in particular the key interest rate at which liquidity is injected into the system, but also via unconventional measures, designed to bypass the malfunctioning that has arisen in the financial system. The combination of these measures depends on the intensity of the crisis and on the ways it has developed in both the real and financial world (**Smaghi, 2011).**

At a time of general uncertainty, central banks have had not only to try to anticipate events but also to use a more efficient combination of instruments to respond to those events. This challenge remains unchanged, even when looking ahead, given the persistent uncertainty about the gradual recovery in economic activity in advanced countries, including the euro area, and the situation on financial markets particularly in the markets for government securities (**Smaghi, 2011).**

I would like to consider some of the challenges that central banks face at a time like the present, also drawing on the experience that we have gained in respect of similar cyclical phases. It should however be noted that this crisis, although it presents features that are similar to those in the past, is much greater in its nature and intensity. In terms of falling output and rising unemployment, it represents for many countries the most serious crisis since the war. As for the impacts on the banking system and on the risk for sovereign debtors, the industrial countries are confronted with a new situation. This obviously makes the conduct of monetary policy more complicated (**Smaghi, 2011).**

(a) Fragility of financial markets

Central banks of many countries including Tanzania concerns the fragility of the financial system as it goes through a shake-out and an overall reduction in its leverage.

The financial crisis has emerged due to the excessive financial leverage that has fuelled excessive consumption and speculative bubbles on different markets, particularly real estate. The return to a sustainable equilibrium depends on the restructuring of these excesses. This restructuring cannot be immediate, nor should it last too long.

The adjustment cannot be immediate because a too rapid reduction in the leverage risks causing an excessive contraction of the assets and liabilities of financial institutions, with an impact on real activity. However, the adjustment should not be too slow either, because prolonging an excessive level of leverage risks creating new imbalances and inducing financial institutions to take excessive risks again.

In this adjustment process, monetary policy plays a decisive role, via conventional measures and exceptional ones. For example, the offer of unlimited liquidity through refinancing operations with the central bank has been essential to favour access to liquidity by many banks at a time when the money markets have not functioned properly. However if it lasts for extended periods, it may delay the necessary adjustments that should be implemented by the banks themselves, particularly by reducing their financial leverage and strengthening their capital. These delays could

exacerbate the fragility of the sector itself. As for the traditional policies, we should not forget that the interest rates decided by the central banks affect, among other things, the value of the assets of financial institutions and their (re-)financing costs, and in particular the spreads that prevail in the money markets.

(b) Consensus on what the objective of monetary policy should be.

In the international community of central bankers, there is widespread consensus that the primary goal of monetary policy must be domestic price stability. Price stability, however, is only a means to an end, and not a final goal of overall macroeconomic policy. The ultimate goal is determined by governments and is normally linked to the objective of maximum economic growth, development and the creation of more employment opportunities.

Contemporary economic theory supports the view, however, that financial stability, as measured by a low rate of inflation, is a precondition for the attainment of optimum economic development. Furthermore, monetary policy, being only one of the sub-elements of overall macroeconomic policy, is tasked with the responsibility to create and maintain such a stable financial environment that will be conducive for sustainable economic growth at an optimum rate in the medium and longer term.

In Tanzania however, confusion remains on what the task and the functions of the central bank should be. The most important delusion, supported by certain business people, politicians and even some academics, is linked to the now defunct Phillips curve approach in terms of which the assumption is made that a higher inflation rate can produce a sustained lift in growth and employment. World-wide experience, as long back as in the 1970's, provided sufficient evidence that the assumed trade-off of higher inflation for lower unemployment could only be exploited over the limited period in which inflation expectations did not fully adjust to the new higher rate of inflation. With a more effective implementation of the theory of rational expectations within modern communities, this limited period has indeed become very short.

Another reason why the conventional theory of demand management through the application of monetary policy is no longer appropriate is the major shift that took place in recent years in macroeconomic management, away from conventional Keynesian demand management to contemporary supply side economics. The Phillips-curve approach is based on the theory of demand-driven inflationary or deflationary conditions. The world-wide situation in the 1970's, when there was a simultaneous rise in inflation and in unemployment in many of the industrial countries, refuted the theory of the trade-off and forced new thinking on particularly the implementation of monetary policy.

The present universal approach on monetary policy therefore takes account of the new electronic environment of instant communication leading to a more swift dissection of policy actions and immediate reaction by markets, and of the more general need in most countries to raise production capacity, and not to stimulate demand. In this environment, the appropriate role for monetary policy has been redefined as a responsibility for the creation and maintenance of stable financial conditions that will be reflected in low inflation. This is what central banks can do best to support governmental programmes for overall economic growth and development.

In Tanzania there is still a major lack of consensus on what the prime objective of monetary policy should be. Unless we can get consensus and support for the almost global approach of contemporary central bank policy, and unless we can agree to pursue these policies also in Tanzania, the road to the internationalisation of the Tanzania economy will be rough and difficult.

(c) Deciding on an appropriate framework for monetary policy

Given the objective of price stability, each central bank must design a framework or a consistent model within which monetary policy can be implemented, taking account of the structure of the financial system and of the economy of the country. Various models

are available to choose from, but whatever model is preferred, the final objective of monetary policy should always be the protection of the value of the currency.

In the Bretton Woods system of fixed par values, the main intermediate objective of monetary policy was the protection of exchange rates, or the external value of the currency. By linking global exchange rates through fixed gold parities, there was a convergence of inflation, at a relatively low level, at least for the many countries that succeeded in maintaining fixed exchange rates over relatively long periods of time. Needless to say, the system broke down in the late sixties and early seventies when more expansionary monetary policies were followed by some of the major industrial countries, and inflation escalated. Today, some smaller countries still attach their exchange rates to a selected major international currency, and then accept the unavoidable consequence that the rate of inflation in the smaller country must converge with the rate of inflation in the economy of the anchor currency. A good example of this approach is provided by Argentina with its convertibility law of 1 Peso = 1 US dollar.

A second widely-used model is the one of monetary targeting where an important monetary aggregate such as the money supply or the amount of bank credit extension is used as an anchor for monetary policy. Within the context of the prime monetary policy objective of maintaining low inflation, a monetary target (or exchange rate target) represents but an intermediate objective of the policy.

(d) Establishing an effective institutional framework for monetary policy

There is a lot of misunderstanding in Tanzania about what is meant with the independence of the institutional framework for monetary policy. The Bank can never be made responsible for determining the overall macroeconomic policy objectives of the country. This is a prerogative of government. The central bank must, however, be given a clear mandate from government on what its policy objective should be, but should then be given the necessary autonomy to pursue and achieve this objective.

Taking account of the powers and influences of central banks, the obvious directive by government to the monetary authority should be to protect the value of the currency in the interest of sustainable optimum economic growth and development in the longer term. To achieve this objective, a central bank must at times apply financial disciplines that are unpopular, will be opposed by pressure groups and are perceived to be against the interests of private sector profiteers, and political popularity. It is inter alia for this reason, and only in respect of the implementation of measures that may at times prove to be unpopular, that central banks should be given "independence" from governments. To quote once more from what a former Governor of the Reserve Bank of Australia once said.

Apart from an effective institutional framework for the Central Bank, Tanzania also needs well-managed private sector banking institutions, well-functioning financial markets and an effective clearing, settlement and payment arrangement for inter-bank transactions. The challenge is therefore not only to liberalise the Tanzania financial sector further, but also to ensure good and prudent financial regulation, and to provide the country with a modern electronically-based national payment system.

The challenge for Tanzania is not to isolate itself from the adverse effects of the globalisation process, but to continue to participate in the programme of gradual international integration.

(e) The overriding challenge for monetary policy is to keep inflation low

Financial stability in Tanzania is threatened from time to time by new and more intensive inflationary pressures. We have not yet succeeded in suppressing the prevailing inflation psychosis in this country.

The process of globalisation unavoidably leads to a convergence of the major financial aggregates such as inflation, real rates of interest and budget deficits. Tanzania will either continue to be part of the globalisation process, together with its inevitable

convergence effects, or will be marginalised and excluded from the advantages of being part of the world-wide process.

In this period of transition from monetary policy targeting to the introduction of a national inflation objective, monetary policy must continue to maintain overall financial stability. This is essential in order to buy time while other policies are put in place to handle the more deep-seated structural deficiencies that must be corrected before Tanzania will be able to experience optimum economic growth with financial stability.

(f) Difficulty in utilizing the traditional instruments of monetary policy in controlling supply.

Since many citizens in developing countries do not deposit their money with commercial banks, it proves rather hard for the central banks to effectively employ their traditional tools of monetary policy to control money supply as a result the monetary policy implementation become weak and lead to the poor economic growth of a country.

(g) Lack of direct linkage between lower interest rates, higher investment and expanded output.

In developing nations, investment decisions are not done using interest rate movements not forgetting that due to inflation, they experience negative real rates of interest. Instead, such decisions depend on business expectations which make it difficult for central banks to implement monetary policy.

5.2.4 Monetary policy instruments significantly influences economic growth of Zanzibar.

Apart from the objectives of the study also expressed the hypothesis of the study which stated that '***monetary policy instrument significantly influences the economic growth of Zanzibar'***. The researcher tested the hypothesis theoretical and empirical and on the following conclusion.

The study findings revealed that 42.5 percent of respondents from those units of analysis were strongly agreed that monetary policy instruments have significantly influence the economic growth of Zanzibar. In addition, more than half of the respondents 52.5 percent agreed that monetary policy instruments significantly influence the growth of Economic of Zanzibar. In aggregate, almost 95 percent of respondents agreed on the positive contribution between Monetary Policy Instrument and Economic Growth of Zanzibar and only five percent were disagreed that the monetary policy variables influence the economic growth of Zanzibar as shown on the figure 4.4 above.

Due to the above evidence from the respondents who returned the questionnaires agreed with the hypothesis that the monetary policy instrument significantly influence the economic growth of Zanzibar, so the result accepting the null hypothesis of the study which is 'Monetary policy instruments significantly influences the economic growth of Zanzibar.

Module analysis and interpretation

Considering the uncertainty quality of data used in the study, the level of statistical significance chosen for testing hypothesis is at 0.05 (5%) of confidence level. The regression result shows there is a weaker linear and proportionate relationship between GDP and the explanatory variables as shown on the table 4.2 above. The explanatory variables identified are the monetary policy variables of Money Supply, Interest Rate, Inflation Rate and Exchange Rate. The sign of the co-efficient reflecting a negative relationship with economic growth and disconfirms to prior expectations of Null Hypothesis which is built on assumption that *Monetary policy instruments significantly influence economic growth of Zanzibar*.

Table 4.2 above summarised that the statistical evidence emanating from the study of Pearson Correlation shows that the values of Money Supply, Inflation Rate, Interest Rate and Exchange Rate as the following -0.265, -0.160, -0.034 and 0.0127 respectively which is below the standard level of coefficient required which is 0.5 to 1 and also their

significant level is above the required significant level of 0.05 (5%). In other words MS, IFR, INTR and EXRT were statistically uncorrelated and insignificant and so there were no significant impact on economic growth and development of Zanzibar.

In conclusion the empirical finding the researcher not only concluded that there is a less relationship between the monetary policy variables and economic growth of Zanzibar but also the researcher confirmed that the monetary policy variables are not significantly influences the economic growth and due to that the researcher rejected the null hypothesis which state that ***'monetary policy variables significantly influences the economic growth'.***

5.3 Conclusion of findings

Under the theoretical findings which include the questionnaires sent to the respondents of all four departments that are selected on this study which includes the Bank of Tanzania, Ministry of Finance, Zanzibar Planning Commission and Zanzibar Investment Promotion Authority, the researcher found that many of the respondents were agreed to the questioned which asked to them.

The study found that there is a high contribution of the monetary policy variables and economic growth, there is significant relationship with monetary policy and economic growth and the monetary policy variables has the great contribution to the economic growth.

According to the empirical findings the researcher found that there is no any relationship between the monetary policy and economic growth, also the study rejected the null hypothesis by found that the monetary policy variables did not significantly influenced the economic growth and finally the researcher summarised that there were minor contribution of the monetary policy variables to the economic growth.

CHAPTER SIX
SUMMARY, CONCLUSIONS, RECOMMENDATIONS AND POLICY IMPLICATIONS

6.1 Introduction

This chapter addresses the summary findings of the study, conclusion, recommendations and policy implementation. The main objective of the study concern the contribution of monetary policy instruments in Zanzibar economic growth, assessing the relationship between monetary policy instruments and economic growth, the challenges encountered during the implementation of monetary policy objectives and also the research provided the hypothesis which state that the monetary policy variables has significantly influence the economic growth of Zanzibar.

The qualitative and descriptive statistics method was employed to gather information from different respondents including senior staffs from Bot, Ministry of Finance, Zanzibar Planning Commission and Zanzibar Investment Promotion Authority.

6.2 Summary of the study

This study investigated the impact of monetary policy in Zanzibar economic growth on selected macroeconomic variables (gross domestic variables, inflation rate, exchange rate, interest rate and money supply) between 2000 and 2013. An empirical investigation of the effectiveness of monetary policy instruments was conducted and the major findings of the study are summarized below:-

6.2.1 Assessing the relationship between monetary policy variables and economic growth of Zanzibar.

Overall, the study found the existence weaker linear and proportionate relationship between GDP and the explanatory variables. The statistical evidence emanating from the study shows that the significant level of Money Supply, Inflation Rate and Interest Rate

is -0.265 (-26%), -.160 (-16%) and -0.034(-34%) respectively which is above of the significance level of 0.05 (5%).

The result showed that there is a negative direction between monetary policy variables and the economic growth of Zanzibar and this means that when independent and dependent variables goes to the different direction, due to that the researcher conclude that there is no relationship between monetary policy instruments and economic growth of Zanzibar.

6.2.2 The variables of monetary policy their significantly contribution in economic growth of Zanzibar.

Based on the contribution of monetary policy instruments in Zanzibar economic growth, most of the respondent who answered this question are agree and strong agree that the monetary policy instrument has a great contribution to the economic growth of Zanzibar. The empirical analysis by using the regression analysis the study found that the contribution of monetary policy on economic growth of Zanzibar is not significant because the level of all variables were above the required significant level of 0.05. However the researcher analyzed the individual contribution for each variable and found that Money Supply has a great contribution compared to the other variables because it recorded high level of coefficient beta and low significant level of 0 .541 and 0.197 respectively followed by the inflation rate which has the coefficient beta of 0.421 and the significant level of 0.322, the interest rate is the third variables on the contribution of the economic growth of Zanzibar which recorded the coefficient beta of 0.244 and its level of significant is 0.530 and exchange rate is the last variable on the contribution on the economic growth of Zanzibar because it recorded the low coefficient of beta which is 0.080 and has recorded high level of significant compared to other variables which is 0.869.

6.2.3Challenges encountered during the implementation of monetary policy objectives

Regarding with the challenges encountered during the implementation of monetary policy objectives, the researcher concluded that many of the respondents through questionnaire agree and strong agree that when the implementation of the monetary policy objectives the monetary policy authority faces many challenges while they are doing their job, among that challenges includes lack of knowledge and inadequate number of skilled staffs, lack of an assessment of the economic situation may hinder the monetary policy implementation and lack of estimating the inflationary pressure by the monetary policy authority may hinder the economic growth are the most pressing constraints encountered during the implementation of monetary policy objectives.

6.2.4 Monetary policy instruments significantly influence the economic growth

The study has revealed that many of the respondent from those selected unity of analysis accepted that the monetary policy variables significantly influence the economic growth because more than 60% of the respondents agreed that and from that point they accept the null hypothesis of the research.

On the other hand the researcher has conducted the empirical study from the data gathered from Bot for the year 2000 to 2013 concerning all the variables and analyzed that data by using the correlation and regression module and the result of that modules showed that the monetary policy variables were uncorrelated and insignificantly influence the economic growth this is because the correlation of the independent variables to dependent variable are all below the standard level required by the module which is 0.5 to 1 and also the significant level for all variables were above the required significant level which is below 0.05 (5%).

According to the above empirical evidence the study rejects the null hypothesis (Ho) which said that *'monetary policy instruments significantly influence the economic growth of Zanzibar'*

6.3 Conclusion

The main objective of the study is concerning the investing the impact of monetary policy instruments on Zanzibar economic growth. Based on the above findings and discussion of the study, the researcher comes up with the following conclusion.

The study has been carried out with a view to ascertaining the extent of effectiveness on monetary policy instruments. The study findings depicted among other things that the impact of monetary policy instruments in Zanzibar economic growth were yet to be established. In this regard, this study has contributed empirically to the quest of knowledge in this area. Analysis suggests that monetary policy has not been influential in reducing economic instability in Zanzibar.

This is due to the insignificant statistics between monetary policy instruments and economic growth, suggesting that monetary policy as a policy option may have been inactive in influencing gross domestic product as targeted by the Central Bank of Tanzania. The study concluded therefore that the inability of monetary policies to effectively maximize its policy objective most times is a result of the shortcomings of policy instruments used in Zanzibar as such limits its contribution to growth even though policies had brought positive but not significance contribution over the years.

6.4 Recommendations

Based on the findings of the study, some recommendations are hereby put forward. These recommendations if implemented are expected to improve the existing situation on the economic growth of Zanzibar government to ensure that all staffs responsible for monetary policy on economic growth are accountable for the purposes of achieving the sustainable economic growth.

Based on the findings made in the course of this study, particularly the results of regression models, is clear that the development of Zanzibar economy is highly dependent on the provision of the favourable environment for investment, which will in

no doubt encourage economic growth and development. The following recommendations are hereby made:-

Monetary policies should be used to create a favourable investment climate by facilitating the emergency of market based interest rate and exchange rate regimes that attract both domestic and foreign investments, creates jobs and promote industrialization. In order to strengthen the financial sector, the Central Bank has to encourage the introduction of more financial instruments that are flexible enough to meet the risk preferences and sophistication of operators in the financial sector.

The government should also endeavour to make the financial sector less volatile and more viable. This will allow for smooth execution of the Central Bank monetary policies. Law relating to the operation of the financial institutions should be made flexible and more favourable for the operators to have room to operate more freely.

For monetary policy to lead to sustainable economic growth efforts must be made to manage periodic volatility (unpredictability) in interest rate, money supply, exchange rate and inflation, while in the long run the stability of the value of domestic currency must be assured through effective exchange rate management regime.

The study also recommends a reduction in government excessive expenditure and flexible monetary policies by the monetary authority that will help sustain price stability and economic growth in the country.

The Central Bank should find way of reducing the level of deficit financing, improve funding of the informal sector and Small and Medium Enterprises (SMEs) and promote integration into formal sector while at the same time working with government to improve tax regime to make the tax capacity to approach the tax potential so as to reduce

tax evasion to bares minimum and ensure that there is proper balancing between capital and recurrent expenditures of government.

6.5 Area for the further study

More research could be carried out on the monetary policy variables on economic growth, but including others variables like balance of payment, price of the products public debts and National income of a country. I would like to suggest for more research to be carried out for the effectiveness and efficiency of monetary policy variables like public debts and balance of payment in enhancing the improvement of the economic growth of a country.

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APPENDICES

APPENDIX A: QUESTIONNAIRE FOR MANAGERS, SENIOR STAFF FROM BANK OF TANZANIA (BOT) ZANZIBAR BRANCH

Dear Sir/Madam,

This study is part of my requirement to the award of Master of Science of Account and Finance at Mzumbe University. Its major objective is to discuss the "***contribution of the monetary policy in Zanzibar economic growth''*** This study is done in Zanzibar as a case study. Based on that, it focuses at the Bank of Tanzania, Ministry of Finance and Zanzibar Planning Commission. Therefore, you are kindly requested to participate in this study by filling in this short questionnaire.

It should be noted that all these information will be treated only for academic purposes and not otherwise, thus you are so requested to feel free when you fill this questionnaire.

The general instructions of filling this questionnaire are:-

- Please give your answers as honestly and free as possible.
- Where a written response is requested, please write clearly and legibly.
- Please answer questions according to specific instruction given under each question.
- Each and every thing you answer will be treated as confidential.
- Do not write your name while you are filling the questionnaire.

SECTION A: BACKGROUND INFORMATION

Please put a tick (√ **)** to what you consider as right answer and explain where required

(1) Sex of respondent

Male [ ]

Female [ ]

(2) What is your age?

Below 25 years	[ ]
Between 25 and 40 years	[ ]
Between 40 and 55 years	[ ]
Above 55 years	[ ]

(3) How many years have you worked with this organization?

1 yr - 3 yrs	[ ]
4yrs - 7yrs	[ ]
8 yrs - 11yrs	[ ]
12yrs and above	[ ]

(4) What is your highest level of education status?

Certificate	[ ]
Diploma	[ ]
Bachelor	[ ]
Master and above	[ ]

SECTION B: **TO ASSESS THE CONTRIBUTION OF MONETARY POLICY VARIABLES IN ZANZIBAR ECONOMIC GROWTH.**

To what extent do you agree with the following statements about the monetary policy instruments/variables on the Zanzibar economic growth? Please tick the appropriate response.

S/NO		Strong Agree	Agree	Undecided	Disagree	Strong Disagree
1.0	Monetary Policy instruments influence economic growth of Zanzibar,					
2.0	Monetary policy instruments has a significant relationship with Growth Domestic Product					
3.0	The exchange rate bears a stable and predictable relationship to price stability as the final target of policy over the medium-term.					
4.0	The exchange rate not only acts directly to dampen imported inflationary pressures but also acts indirectly to tackle domestic sources of inflation					
5.0	The decisions of monetary authorities intervention influence the macro variables like GDP, money supply, interest rates, exchange rates and inflation					
6.0	Monetary policy influences the aggregate demand and aggregate supply and affecting economic growth accordingly					
7.0	Monetary Policy manipulates the money supply and rate of interest in such a way to achieve the goals of the manifestation of the country's economy					
8.0	Monetary policy provides a logical relationship between its variables stipulated to affects the outcomes regarding the Central Bank applies these tools to regulate the money creation, targeting the rate of interest to manage the pace of monetary circulation.					

9.0	An appropriate monetary policy is supplemented by the external environment of suitable liquidity, interest rate, robust demand, soft assistance from the world bank of the financial institutions and debt rescheduling would lead to sustainable economic growth in the long run					
10.0	The monetary policy instruments play important role in a sustainable economic growth.					
11.0	Do the monetary policy variables affect the economic growth of a country?					
12.0	A tightening the monetary policy variables generally are expected to reduce price level and affect the economic growth.					
13.0	The monetary policy shock is not a dominant source of economic growth fluctuation.					
14.0	Inflation rate, exchange rate, interest rate, money supply and gross domestic product are significant monetary policy instruments that drive economic growth					
15.0	The role of monetary policy is usually targeted towards the achievement of full-employment equilibrium, rapid economic growth, price stability, and external balance					
16.0	The monetary policy instruments are the essential tools of achieving macroeconomic stability.					
17.0	Monetary policy presented by money supply exerts a positive impact on GDP growth and Balance of Payment but negative impact on rate of inflation					
18.0	Interest rate, inflation rate, money supply and exchange rate has a significant relationship with gross domestic product.					
19.0	Monetary policy instrument significantly influence the economic growth of Zanzibar.					

SECTION C: CHALLENGES ENCOUNTERED DURING THE IMPLEMENTION OG THE MONETORY POLICY VARIABLES.

To what extent do you agree with the following statements about the challenges face by Monetary Policy Authorities in implementing their duties? Please tick the appropriate response

S/NO		Strong agree	Agree	Undecided	Disagree	Strong disagree
20.0	Lack of knowledge and inadequate numbers of staffs on monetary policy matters may lead the poor economic growth.					
21.0	Lack of estimating the inflationary pressure by the monetary authority may hinder the economic growth.					
22.0	Lack of an assessment of the economic situation in the period in which monetary policy has its effects.					
23.0	Inadequate resource may cause the challenges of implementing monetary policy authority during the exercise of their duties					
24.0	Lack of the effectiveness of the monetary policy transmission mechanism in the face of financial turmoil, particularly with regard to sovereign debts.					
25.0	Lack of managing interest and exchange rates policies to achieve the appropriate balance between maintaining a strong and productive domestic economy and a viable and sustainable external sector.					
26.0	The impact of the advent of information technology, e-money and e-banking on the economy and monetary policy implementation.					

Thank You Very Much for your Co-operation

APPENDIX B: QUESTIONNAIRE FOR SENIOR STAFFS FROM MINISTRY OF FINANCE OF ZANZIBAR

Dear Sir/Madam,

This study is part of my requirement to the award of Master of Science of Account and Finance at Mzumbe University. Its major objective is to discuss the "***contribution of the monetary policy in Zanzibar economic growth''*** This study is done in Zanzibar as a case study. Based on that, it focuses at the Bank of Tanzania, Ministry of Finance and Zanzibar Planning Commission. Therefore, you are kindly requested to participate in this study by filling in this short questionnaire.

It should be noted that all these information will be treated only for academic purposes and not otherwise, thus you are so requested to feel free when you fill this questionnaire.

The general instructions of filling this questionnaire are:-

- Please give your answers as honestly and free as possible.
- Where a written response is requested, please write clearly and legibly.
- Please answer questions according to specific instruction given under each question.
- Each and every thing you answer will be treated as confidential.
- Do not write your name while you are filling the questionnaire.

SECTION A: BACKGROUND INFORMATION

Please put a tick (√ **)** to what you consider as right answer and explain where required

(1) Sex of respondent

Male [ ]

Female [ ]

(2) What is your age?

Below 25 years	[ ]
Between 25 and 40 years	[ ]
Between 40 and 55 years	[ ]
Above 55 years	[ ]

(3) How many years have you worked with this organization?

1 yr - 3 yrs	[ ]
4yrs - 7yrs	[ ]
8 yrs - 11yrs	[ ]
12yrs and above	[ ]

(4) What is your highest level of education status?

Certificate	[ ]
Diploma	[ ]
Bachelor	[ ]
Master and above	[ ]

SECTION B: **TO ASSESS THE CONTRIBUTION OF MONETARY POLICY VARIABLES IN ZANZIBAR ECONOMIC GROWTH.**

To what extent do you agree with the following statements about the monetary policy instruments/variables on the Zanzibar economic growth? Please tick the appropriate response.

S/NO		Strong Agree	Agree	Undecided	Disagree	Strong Disagree
1.0	Monetary Policy instruments influence economic growth of Zanzibar,					
2.0	Monetary policy instruments has a significant relationship with Growth Domestic Product					
3.0	The exchange rate bears a stable and predictable relationship to price stability as the final target of policy over the medium-term.					
4.0	The exchange rate not only acts directly to dampen imported inflationary pressures but also acts indirectly to tackle domestic sources of inflation					
5.0	The decisions of monetary authorities intervention influence the macro variables like GDP, money supply, interest rates, exchange rates and inflation					
6.0	Monetary policy influences the aggregate demand and aggregate supply and affecting economic growth accordingly					
7.0	Monetary Policy manipulates the money supply and rate of interest in such a way to achieve the goals of the manifestation of the country's economy					
8.0	Monetary policy provides a logical relationship between					

	its variables stipulated to affects the outcomes regarding the Central Bank applies these tools to regulate the money creation, targeting the rate of interest to manage the pace of monetary circulation.					
9.0	An appropriate monetary policy is supplemented by the external environment of suitable liquidity, interest rate, robust demand, soft assistance from the world bank of the financial institutions and debt rescheduling would lead to sustainable economic growth in the long run					
10.0	The monetary policy instruments play important role in a sustainable economic growth.					
11.0	Do the monetary policy variables affect the economic growth of a country?					
12.0	A tightening the monetary policy variables generally are expected to reduce price level and affect the economic growth.					
13.0	The monetary policy shock is not a dominant source of economic growth fluctuation.					
14.0	Inflation rate, exchange rate, interest rate, money supply and gross domestic product are significant monetary policy instruments that drive economic growth					
15.0	The role of monetary policy is usually targeted towards the achievement of full-employment equilibrium, rapid economic growth, price stability, and external balance					
16.0	The monetary policy instruments are the essential tools of achieving macroeconomic stability.					

17.0	Monetary policy presented by money supply exerts a positive impact on GDP growth and Balance of Payment but negative impact on rate of inflation					
18.0	Interest rate, inflation rate, money supply and exchange rate has a significant relationship with gross domestic product.					
19.0	Monetary policy instrument significantly influence the economic growth of Zanzibar.					

SECTION C: CHALLENGES ENCOUNTERED DURING THE IMPLEMENTION OG THE MONETORY POLICY OBJECTIVE.

To what extent do you agree with the following statements about the challenges face by Monetary Policy Authorities in implementing their duties? Please tick the appropriate response

S/NO		Strong agree	Agree	Undecided	Disagree	Strong disagree
20.0	Lack of knowledge and inadequate numbers of staffs on monetary policy matters may lead the poor economic growth.					
21.0	Lack of estimating the inflationary pressure by the monetary authority may hinder the economic growth.					
22.0	Lack of an assessment of the economic situation in the period in which monetary policy has its effects.					
23.0	Inadequate resource may cause the challenges of implementing monetary policy authority during the exercise of their duties					
24.0	Lack of the effectiveness of the monetary policy transmission mechanism in the face of financial turmoil, particularly with regard to sovereign debts.					
25.0	Lack of managing interest and exchange rates policies to achieve the appropriate balance between maintaining a strong and productive domestic economy and a viable and sustainable external sector.					
26.0	The impact of the advent of information technology, e-money and e-banking on the economy and monetary policy implementation.					

Thank You Very Much for your Co-operation

APPENDIX C: QUESTIONNAIRE FOR SENIOR STAFFS FROM ZANZIBAR PLANNING COMMISSION

Dear Sir/Madam,

This study is part of my requirement to the award of Master of Science of Account and Finance at Mzumbe University. Its major objective is to discuss the "***contribution of the monetary policy in Zanzibar economic growth''*** This study is done in Zanzibar as a case study. Based on that, it focuses at the Bank of Tanzania, Ministry of Finance and Zanzibar Planning Commission. Therefore, you are kindly requested to participate in this study by filling in this short questionnaire.

It should be noted that all these information will be treated only for academic purposes and not otherwise, thus you are so requested to feel free when you fill this questionnaire.

The general instructions of filling this questionnaire are:-

- Please give your answers as honestly and free as possible.
- Where a written response is requested, please write clearly and legibly.
- Please answer questions according to specific instruction given under each question.
- Each and every thing you answer will be treated as confidential.
- Do not write your name while you are filling the questionnaire.

SECTION A: BACKGROUND INFORMATION

Please put a tick (√ **)** to what you consider as right answer and explain where required

(1) Sex of respondent

Male [ ]

Female [ ]

(2) What is your age?

Below 25 years	[ ]
Between 25 and 40 years	[ ]
Between 40 and 55 years	[ ]
Above 55 years	[ ]

(3) How many years have you worked with this organization?

1 yr - 3 yrs	[ ]
4yrs - 7yrs	[ ]
8 yrs - 11yrs	[ ]
12yrs and above	[ ]

(4) What is your highest level of education status?

Certificate	[ ]
Diploma	[ ]
Bachelor	[ ]
Master and above	[ ]

SECTION B: **TO ASSESS THE CONTRIBUTION OF MONETARY POLICY VARIABLES IN ZANZIBAR ECONOMIC GROWTH.**

To what extent do you agree with the following statements about the monetary policy instruments/variables on the Zanzibar economic growth? Please tick the appropriate response.

S/NO		Strong Agree	Agree	Undecided	Disagree	Strong Disagree
1.0	Monetary Policy instruments influence economic growth of Zanzibar,					
2.0	Monetary policy instruments has a significant relationship with Growth Domestic Product					
3.0	The exchange rate bears a stable and predictable relationship to price stability as the final target of policy over the medium-term.					
4.0	The exchange rate not only acts directly to dampen imported inflationary pressures but also acts indirectly to tackle domestic sources of inflation					
5.0	The decisions of monetary authorities intervention influence the macro variables like GDP, money supply, interest rates, exchange rates and inflation					
6.0	Monetary policy influences the aggregate demand and aggregate supply and affecting economic growth accordingly					
7.0	Monetary Policy manipulates the money supply and rate of interest in such a way to achieve the goals of the manifestation of the country's economy					

8.0	Monetary policy provides a logical relationship between its variables stipulated to affects the outcomes regarding the Central Bank applies these tools to regulate the money creation, targeting the rate of interest to manage the pace of monetary circulation.					
9.0	An appropriate monetary policy is supplemented by the external environment of suitable liquidity, interest rate, robust demand, soft assistance from the world bank of the financial institutions and debt rescheduling would lead to sustainable economic growth in the long run					
10.0	The monetary policy instruments play important role in a sustainable economic growth.					
11.0	Do the monetary policy variables affect the economic growth of a country?					
12.0	A tightening the monetary policy variables generally are expected to reduce price level and affect the economic growth.					
13.0	The monetary policy shock is not a dominant source of economic growth fluctuation.					
14.0	Inflation rate, exchange rate, interest rate, money supply and gross domestic product are significant monetary policy instruments that drive economic growth					
15.0	The role of monetary policy is usually targeted towards the achievement of full-employment equilibrium,					

	rapid economic growth, price stability, and external balance					
16.0	The monetary policy instruments are the essential tools of achieving macroeconomic stability.					
17.0	Monetary policy presented by money supply exerts a positive impact on GDP growth and Balance of Payment but negative impact on rate of inflation					
18.0	Interest rate, inflation rate, money supply and exchange rate has a significant relationship with gross domestic product.					
19.0	Monetary policy instrument significantly influence the economic growth of Zanzibar.					

SECTION C: CHALLENGES ENCOUNTERED DURING THE IMPLEMENTION OG THE MONETORY POLICY OBJECTIVE.

To what extent do you agree with the following statements about the challenges face by Monetary Policy Authorities in implementing their duties? Please tick the appropriate response

S/NO		Strong agree	Agree	Undecided	Disagree	Strong disagree
20.0	Lack of knowledge and inadequate numbers of staffs on monetary policy matters may lead the poor economic growth.					
21.0	Lack of estimating the inflationary pressure by the monetary authority may hinder the economic growth.					
22.0	Lack of an assessment of the economic situation in the period in which monetary policy has its effects.					
23.0	Inadequate resource may cause the challenges of implementing monetary policy authority during the exercise of their duties					
24.0	Lack of the effectiveness of the monetary policy transmission mechanism in the face of financial turmoil, particularly with regard to sovereign debts.					
25.0	Lack of managing interest and exchange rates policies to achieve the appropriate balance between maintaining a strong and productive domestic economy and a viable and sustainable external sector.					
26.0	The impact of the advent of information technology, e-money and e-banking on the economy and monetary policy implementation.					

Thank You Very Much for your Co-operation

APPENDIX D : QUESTIONNAIRE FOR SENIOR STAFFS FROM ZANZIBAR INVESTMENT PROMOTION AUTHORITY

Dear Sir/Madam,

This study is part of my requirement to the award of Master of Science of Account and Finance at Mzumbe University. Its major objective is to discuss the "***contribution of the monetary policy in Zanzibar economic growth''*** This study is done in Zanzibar as a case study. Based on that, it focuses at the Bank of Tanzania, Ministry of Finance and Zanzibar Planning Commission. Therefore, you are kindly requested to participate in this study by filling in this short questionnaire.

It should be noted that all these information will be treated only for academic purposes and not otherwise, thus you are so requested to feel free when you fill this questionnaire.

The general instructions of filling this questionnaire are:-

- Please give your answers as honestly and free as possible.
- Where a written response is requested, please write clearly and legibly.
- Please answer questions according to specific instruction given under each question.
- Each and every thing you answer will be treated as confidential.
- Do not write your name while you are filling the questionnaire.

SECTION A: BACKGROUND INFORMATION

Please put a tick (√ **)** to what you consider as right answer and explain where required

(5) Sex of respondent

Male [ ]

Female [ ]

(6) What is your age?

Below 25 years	[ ]
Between 25 and 40 years	[ ]
Between 40 and 55 years	[ ]
Above 55 years	[ ]

(7) How many years have you worked with this organization?

1 yr - 3 yrs	[ ]
4yrs - 7yrs	[ ]
8 yrs - 11yrs	[ ]
12yrs and above	[ ]

(8) What is your highest level of education status?

Certificate	[ ]
Diploma	[ ]
Bachelor	[ ]
Master and above	[ ]

SECTION B: **TO ASSESS THE CONTRIBUTION OF MONETARY POLICY VARIABLES IN ZANZIBAR ECONOMIC GROWTH.**

To what extent do you agree with the following statements about the monetary policy instruments/variables on the Zanzibar economic growth? Please tick the appropriate response.

S/NO		Strong Agree	Agree	Undecided	Disagree	Strong Disagree
1.0	Monetary Policy instruments influence economic growth of Zanzibar,					
2.0	Monetary policy instruments has a significant relationship with Growth Domestic Product					
3.0	The exchange rate bears a stable and predictable relationship to price stability as the final target of policy over the medium-term.					
4.0	The exchange rate not only acts directly to dampen imported inflationary pressures but also acts indirectly to tackle domestic sources of inflation					
5.0	The decisions of monetary authorities intervention influence the macro variables like GDP, money supply, interest rates, exchange rates and inflation					
6.0	Monetary policy influences the aggregate demand and aggregate supply and affecting economic growth accordingly					
7.0	Monetary Policy manipulates the money supply and rate of interest in such a way to achieve the goals of the manifestation of the country's economy					

8.0	Monetary policy provides a logical relationship between its variables stipulated to affects the outcomes regarding the Central Bank applies these tools to regulate the money creation, targeting the rate of interest to manage the pace of monetary circulation.					
9.0	An appropriate monetary policy is supplemented by the external environment of suitable liquidity, interest rate, robust demand, soft assistance from the world bank of the financial institutions and debt rescheduling would lead to sustainable economic growth in the long run					
10.0	The monetary policy instruments play important role in a sustainable economic growth.					
11.0	Do the monetary policy variables affect the economic growth of a country?					
12.0	A tightening the monetary policy variables generally are expected to reduce price level and affect the economic growth.					
13.0	The monetary policy shock is not a dominant source of economic growth fluctuation.					
14.0	Inflation rate, exchange rate, interest rate, money supply and gross domestic product are significant monetary policy instruments that drive economic growth					
15.0	The role of monetary policy is usually targeted towards the achievement of full-employment equilibrium, rapid economic growth, price stability, and external balance					

16.0	The monetary policy instruments are the essential tools of achieving macroeconomic stability.					
17.0	Monetary policy presented by money supply exerts a positive impact on GDP growth and Balance of Payment but negative impact on rate of inflation					
18.0	Interest rate, inflation rate, money supply and exchange rate has a significant relationship with gross domestic product.					
19.0	Monetary policy instrument significantly influence the economic growth of Zanzibar.					

SECTION C: CHALLENGES ENCOUNTERED DURING THE IMPLEMENTION OG THE MONETORY POLICY OBJECTIVE.

To what extent do you agree with the following statements about the challenges face by Monetary Policy Authorities in implementing their duties? Please tick the appropriate response

S/NO		Strong agree	Agree	Undecided	Disagree	Strong disagree
20.0	Lack of knowledge and inadequate numbers of staffs on monetary policy matters may lead the poor economic growth.					
21.0	Lack of estimating the inflationary pressure by the monetary authority may hinder the economic growth.					
22.0	Lack of an assessment of the economic situation in the period in which monetary policy has its effects.					
23.0	Inadequate resource may cause the challenges of implementing monetary policy authority during the exercise of their duties					
24.0	Lack of the effectiveness of the monetary policy transmission mechanism in the face of financial turmoil, particularly with regard to sovereign debts.					
25.0	Lack of managing interest and exchange rates policies to achieve the appropriate balance between maintaining a strong and productive domestic economy and a viable and sustainable external sector.					
26.0	The impact of the advent of information technology, e-money and e-banking on the economy and monetary policy implementation.					

Thank You Very Much for your Co-operation

APPENDIX E: INTEVIEW GUIDE FOR THE GOVERNMENT OFFICIAL

Dear Sir/Madam,

This study is part of my requirement to the award of Master of Science of Account and Finance at Mzumbe University. Its major objective is to discuss the "***contribution of the monetary policy in Zanzibar economic growth''*** This study is done in Zanzibar as a case study. Based on that, it focuses at the Bank of Tanzania, Ministry of Finance and Zanzibar Planning Commission. Therefore, you are kindly requested to participate in this study by answering these short questions.

It should be noted that all these information will be treated only for academic purposes and not otherwise, thus you are so requested to feel free while you are answering these questions.

QUESTIONS;

(1) Briefly describe the contribution of monetary policy in Zanzibar economic growth?

(2) What is the relationship between monetary policy instruments and economic growth?

(3) Does monetary policy instruments significantly influence economic growth? Explain.

(4) Mention five challenges that encountered during the implementation of the monetary policy instrument.

Thank You Very Much for your Co-operation