

## **CHAPTER NINE**

### **CONCLUSION:**

#### **FINDINGS AND POLICY RECOMMENDATION**

---

## **CHAPTER NINE**

### **CONCLUSION: FINDINGS AND POLICY RECOMMENDATION**

---

#### **CONCLUDING REMARKS**

In our conclusion, we will discuss the policy implications of the monetary system. A country can dramatically and systematically progress only when the monetary system is well-developed and working efficiently. It is an important factor in any economy in the world. Thus, the monetary system is the backbone for the economic growth of a country and plays a significant role in the development of the entire priority sector. Ultimately, it is the level of national income, or rather per capital income, and the growth rate in it over a period of time that matters. There is a consensus among economists that the standard of living in a country is governed largely by its productive capacity, which depends positively on the factors of production viz; labour and capital, and technology and infrastructure, investment in HRD. Savings contributes to the physical and thereby promotes economic growth. Large fiscal deficits retard national savings and thus harm economic growth..Economic policies favouring globalization, institutional infrastructure and sound macroeconomic stability have proved their worth in effecting economic growth. Though, there is no precise mathematical model like the Harrod-Domar model to explain the growth varieties across model to explain the growth varieties across countries and time, the endogenous growth

theory provides a good account of the same. For our study of the role of monetary of the Sudan during the following findings.

## **FINDINGS**

In the **first chapter**, and introduction to the financial development and its role in economic growth is analysed in general. Then, the second section basic characteristics of the Sudanese economy are analysed with special emphasis on the priority sectors. The Sudanese economy is characterized as a small, partially open and some what independent economy. We found major constraints of development and economic growth process as follows (a) institutional (politically motivated) (b) the external debt burden was used and diverted to unproductive ends by the government (c) weak financial sector, and also (d) the infrastructure constraints.

In the **second chapter**, the survey of literature is discussed and reviewed, which is related to financial development and economic growth and development in the developing countries, along with that the Islamic economy's literature is also reviewed. In addition to that the hypothesis and research methodology and data collection plus limitations of the study are discussed. The objectives of the study are to analyse the proximate and ultimate determinants of money stock, to investigate the causal relationship between money supply and income, prices and inflation, the demand for money and the error correction, plus to examine the impact of monetary expansion on balance of payments and fiscal deficit. Here, we repeat that the literature on money and finance is quite vocal on the role of the supply of financial assets; if the supply of money is small, the financial deepening in a

country is most likely to be shallow . for the economy of Sudan, growth of financial assets is far from the levels obtained in developed economies for a number of reasons.

The **third chapter**, analyses the meanings and definitions of money, plus to that demand for money in all schools of economic thought is discussed and explained and the analysis of demand for money in the Sudan is empirically analysed. The demand for money is found to be stable function of a few specifiable variables all together. It is found that the demand for money in the Sudan responds negatively to the expected rate of inflation. The cointegration results imply that narrow money ( $M_1$ ) has a long-run relationship with prices, **GDP** and exchange rate. The velocity of money function is analysed and the empirical evidence is highly positive. The error correction results, using broad money definition, show that exchange rate, rates of inflation, real growth in income are relevant in determining the growth in nominal money demand. Our model emphasized the results of Domowitz and Elbadawi (1987). Also we found that the demand for money was high during the 1990s, which shows the impact of the government unnecessary consumption.

In **chapter four**, the endogeneity and exogeneity of money supply is discussed and the analysis is centered at exploring whether monetary authorities in the Sudan can control the stock of money. The money multiplier of money supply is adopted and the proximate determinants of money stock are discussed rather than measured high-powered money, as behavioural analyses of money supply process. The factors of affecting in high-powered money are identified as Bank of Sudan credit to the domestic

sector (government, government enterprise commercial banks and private sector), net foreign assets, and, net non-monetary liabilities of the Bank of Sudan (**BoS**). The present analysis takes another look at the causal nexus between money and other macroeconomic variables including output, prices. As mentioned previously, the broad money ( $M_2$ ) seems to be a preferable intermediate target to stabilise the economy in the long-run as there exists an inherent tendency for the variables to move together and any deviation from the long-run path will be corrected. For short-run stabilisation it seems that the narrow money ( $M_1$ ) may still be important in controlling inflation and promoting output, we note possible policy dilemma. In the narrow money ( $M_1$ ) the growth rate of money is found to positively affect both price and output. In 1990s due to the conflicts with the **IMF** and the regime's policies, the supply of money was too high, subsequently, the pricing rising specifically in between 1993 to 1997.

**The fifth chapter**, discusses and analyses the structure of monetary system in the Sudan, and the analysis is centred at exploring the central monetary authorities in the Sudan can control the money supply by means of the monetary policy's instruments. The money and capital markets in the Sudan, commercial banks are discussed. For one thing, the Sudan used to not to have a capital market till the year 1993, Khartoum stock exchange established in 1994, indeed it is an infant stock exchange, we found it lacks behind due to small size of financial assets.

In the **sixth chapter**, the Islamic banking and finance is discussed and the analysis is centred around the acceptability and practicability of the Islamic banking system which include the central monetary authorities and the

replacement of interest-base banking by the profit-loss-scheme system. We found that the Islamic banking system is facing many problems: (a) the aggravation of non-performing loans (**NPL**), the existence of some semi-applications of financing techniques of murabaha, and also difficulty in applying some Islamic modes of finance.

**The seventh chapter**, is related to monetary base in relationship with the government finance and debt management, we observe that the government expenditure is continuously increasing without any impact on development , on the other side the revenue collection lack behind the expenditure and the result is deficit financing. For the government finance, a model is estimated with the data covering the period of study and our estimates show a positive correlation among the variables of the fiscal structure and satisfactory results are obtained.

**Chapter eight** focuses on money and the balance of payments. The empirical analysis is centred around the impact of money on balance of payments is much stronger than prices, the main objective of monetary policy should be the attainment of external sector stability followed by price stability. We found that the behaviour of balance of trade was in imbalances position due to unnecessary imports of luxurious items by the ruling regimes and lacking in exports which was dominated by agricultural product and recently , in 1998 the export of oil took place. The foreign debt is in bad shape with more than US \$ 20 billions, which leads the Sudan to be among the heavily indebted countries. Our analysis has shown significant correlation among the **BoPs** variables.

## **POLICY RECOMMENDATION**

Based on our foresaid findings, we would like to make the following policy recommendations for macroeconomics stability and steady economic growth along with a healthy monetary system in the Sudan.

(i) The complex relationship between macroeconomic stability and financial structure that has to be studied further. With a poor financial structure, there is no room for long term relationship. Poor bankruptcy laws put a premium on short term debt which gives the creditors a chance to withdraw their funds. However, short-term debt which gives the creditors a chance to withdraw their funds. However, short-term debt itself can be source funds. However, short-term debt itself can be source of instability. Here, the monetary authority should play a positive role to encourage long-term banking business for the benefit of development process, considering that all Islamic banking dealings are in short and medium term.

(ii) Globalization of financial markets and capital account liberalisation raise important question for the role of financial structure that need further study, globalization can improve the stability of financial intermediaries in particular with financial liberalisation processes that have been introduced by the Sudanese regime in 1990s and accepted as the fact. Exogenous influence and Bank of Sudan is going to face many problems while designing and conducting appropriate monetary credit policy with

Islamic features. In this connection, we would like to recommend that there is an urgent need and underchanging scenario to review the role of the central bank.

(iii) Bank of Sudan should be given greater autonomy with regard to planning of reserve money, should finance the bank fast-growing and powerful Islamic banks for the conductive of business since, they can not borrow from international conventional banks.

(iv) We recommended that only one domestic currency should be used, instead of using two currencies simultaneously for the stability and unity of the country, We recommend the re-installation of the Sudan pound once again.

(v) The solution for changes in domestic price, income, and international reserve holdings, resulting from exchanges increase in foreign trade, here, we recommended that the central monetary authority should not release foreign exchange for the unnecessary imports and should encourage exports and domestic production related exports and domestic production related to exports should be financial by **BoS**.

(vi) Reasonable devaluation of domestic currency improves the trade balance, but too much devaluation also discourages the production-imported goods which leads to declined in domestic output and subsequently economic instability, here **BoS** should interface to control the too much devaluation of domestic currency.



(vii) As a matter of fact that, the fiscal deficit has strong positive influence, on monetary operations conducted by the Bank of Sudan as a monetary authority. In fact the Bank of Sudan has lost autonomy in monetary management and it has to follow the directions from the government or any military ruling regime. Hence, we would like to recommend that all attempts should be made to reduce deficit by controlling the fast growing unnecessary government expenditure. Effort should be made to raise the revenue by widening the basis of tax, preventing the mass corruption of the system and stopping all sort of special concessions and large tax evasion. This would necessitate the fair selection and training of the reforms at the tax laws.

\*\*\*\*\*

\*\*\*\*\*

}