Name: ziaullah
ID: 16229
Section: A
Dept: BBA
Instructor: Miss.Wajiha Amin

What is the function of a Central Bank?

A Central Bank is an integral part of the financial and economic system. They are usually owned by the government and given certain functions to fulfil. These include printing money, operating monetary policy, the lender of last resort and ensuring the stability of financial system.
Examples of Central Banks include

- Federal Reserve – US
- Bank of England – UK
- European Central Bank (ECB) – EU
- Reserve Bank of India

Functions of Central Bank

1 Issue money. The Central Bank will have responsibility for issuing notes and coins and ensure people have faith in notes which are printed, e.g. protect against forgery. Printing money is also an important responsibility because printing too much can cause inflation.

2 Lender of Last Resort to Commercial banks. If banks get into liquidity shortages, then the Central Bank is able to lend the commercial bank sufficient funds to avoid the bank running short. This is a very important function as it helps maintain confidence in the

banking system. If a bank ran out of money, people would lose confidence and want to withdraw their money from the bank. Having a lender of last resort means that we don't expect a liquidity crisis with our banks, therefore people have high confidence in keeping our savings in banks. For example, the US Federal Reserve was created in 1907 after a bank panic was averted by intervention from JPMorgan; this led to the creation of a Central Bank who would have this function.

3 Lender of Last Resort to Government. Government borrowing is financed by selling bonds on the open market. There may be some months where the government fails to sell sufficient bonds and so has a shortfall. This would cause panic amongst bond investors and they would be more likely to sell their government bonds and demand higher interest rates. However, if the Bank of England intervene and buy some government bonds then they can avoid these 'liquidity shortages'. This gives bond investors more confidence and helps the government to borrow at lower interest rates. A problem in the Eurozone in 2011, is that the ECB was not willing to act as lender of last resort – causing higher bond yields.

4 Target low inflation. Many governments give the Central Bank a target for inflation, e.g. the Bank of England has an inflation target of 2% +/- 1. See: Bank of England inflation target. Low inflation helps to create greater economic stability and preserves the value of money and savings.

5 Target growth and unemployment. As well as low inflation a Central Bank will consider other macroeconomic objectives such as economic growth and unemployment. For example, in a period of temporary cost-push inflation, the Central Bank may accept a higher rate of inflation because it doesn't want to push the economy into a recession.

6 Operate monetary policy/interest rates. The Central Bank set interest rates to target low inflation and maintain economic growth. Every month the MPC will meet and evaluate whether inflationary pressures in the economy justify a rate increase. To make a judgement on inflationary pressures they will examine every aspect of the economic situation and look at a variety of economic statistics to

get a picture of the whole economy. See: how the Bank of England set interest rates.

7 Unconventional monetary policy. The Central Bank may also need to use other monetary instruments to achieve macroeconomic targets. For example, in a liquidity trap, lower interest rates may be insufficient to boost spending and economic growth. In this situation, the Central Bank may resort to more unconventional monetary policies such as quantitative easing. This involves creating money and using this money to buy bonds; the aim of quantitative easing is to reduce interest rates and boost bank lending

8 Ensure stability of the financial system. For example, regulate bank lending and financial derivatives.

Central Bank Independence

In some countries government's take responsibility for Monetary policy. However, recently there has been a trend towards giving Central Banks independence for setting interest rates and controlling monetary policy. For example, the Bank of England was made independent in 1997.

However, the government often retains some control over monetary policy. For example, the UK government still set the inflation target CPI = 2% +/-1.

2Q

impact of coronavirus on Pakistan economy

The coronavirus has wreaked havoc all over the world. The economic impact could be even worse than that of the Great Depression. The IMF expects the global GDP to fall by 3% in 2020. The WTO has warned that the volume of world trade could shrink by up to 32% while the ILO has indicated that 195 million jobs globally could be lost.

Pakistan will inevitably be impacted by both the global and domestic developments arising from the spread of the virus. The economy was recovering earlier slowly under the umbrella of an IMF programmer. Now the process of growth could be hampered seriously leading to big increases in unemployment, poverty and hunger.

The World Bank in its latest South Asian Economic Focus report has projected that Pakistan's economy will experience negative GDP growth of 1.3% in 2019-20, followed by only 1% growth in 2020-21. This implies that the GDP growth in the fourth quarter of 2019-20 will be a big negative 10%. This is highly likely given the quantum decline expected in exports, private investment and consumption spending by households.

The most vulnerable groups are self-employed daily- income earners and employees of SMEs. The lockdowns and the subsequent fall in the GDP could lead to unemployment of over 5 million more workers. This will raise the national unemployment rate to the unprecedented level of 14%. The number of people falling below the poverty line could be as many as 20 million, raising the number of poor in the country to almost 100 million.
These developments will increase the danger of social unrest as highlighted by the IMF. Not only do the medical and health facilities have to be expanded rapidly but also simultaneously relief activities and measures for preventing unemployment must be put effectively in place. The government has already started a cash transfer of Rs12,000 per family to 12 million households. An overall relief programme of Rs1,200 billion has been implemented by the federal government. The SBP has announced special subsidized credit programmes for private businesses to sustain their operation and maintain their workers over the next three months. These initiatives must be implemented successfully and upscaled if necessary. We all pray for an early recovery

today, you all will shake each other's hands before leaving the mosque. Perform Namaz (prayers) standing shoulder-to-shoulder and ankle-to-ankle in the rows! If anyone amongst you contracts Coronavirus, shoot me in the middle of the street and you will not be punished for that!" These words are not mine but were said by a Maulvi (Islamic cleric) in a mosque situated in Pakistan, the video of which I watched online a few days back.

The World Health Organization has advised practising social-distancing so as to reduce the spread of the Coronavirus, but in a country like Pakistan, where there are millions of such clerics promoting social gatherings and spreading misinformation (like the one mentioned above), WHO's advice is considered a 'Yahoodi Saazish' (Zionists' conspiracy) by many of its educated and illiterate citizens.

There is no good sentiment in the air on the trading floor of Pakistan Stock Exchange since the beginning of the month of March. And it all fell down like a house of cards on Monday (March 9th) when the Kingdom of Saudi Arabia announced waging price war against Russia to capture the oil market share after Putin's ego went in against the US shale producers as the demand for crude has been sliding down with China, Europe and the rest of the world sneezing hard due to COVID-19 spread.

KSE 100 was down 2106 points just moments after trading started and circuit breaker had to be triggered to halt trading to reduce the floor's temperature. But nothing can provide comfort to an investor in the middle of a looming recession. Karachi Stock Exchange after a series of bearish sell-offs since then is standing at 30,667 – 20pc down –as it went through highly volatile two weeks of trading. A sell-off will indeed leave the firms short of liquidity. Insufficient cash flow as a result of slowing demand up and down the country with 12.50% central bank's policy rate will make it hard for the businesses to 'breath' normally having Chinese Virus around.

Almost 60pc of all that Pakistan exports is textile! The problem this sector is currently facing is that the majority of the raw material –dyes & chemicals– that is required to produce textile is imported from China. The industry highly contributes to the foreign currency reserves of the dollar-strapped country that finds itself quite frequently with just enough reserves to pay for 1.5 to 2 months of imports.

The textile industry has already been suffering from the liquidity shortages as the highly incompetent Imran Khan government after ending zero-rated status of the important export-based industries, failed to refund the sales tax proceeds and custom duty rebates of these firms. The last quarter of the ongoing fiscal year and the first two quarters of the upcoming fiscal year FY21 would bring unprecedented levels of cash-shortage problems as the investors have started investing in safe-haven stocks, gold and dollars.

Cash is everything as we move through one of the worst recessionary intervals. It's quite foolish of Pakistan's government to not to refund the amount that exceeds $130 million to the textile exporters since past thirteen months –who needs an enemy when your Prime Minister is Imran Ahmed Khan Niazi.

I was worried about the vast sums of hot money flowing in since past one year and that all ended up with almost $1.4 billion of the capital flowing out of Pakistan's suffering capital markets during this month. The dollar is indeed controlling the 'heaven' at this point in time and Pakistani Rupee like any other emerging market currency is losing its value. That's not going to help the exports as the flow of raw material plus the cash-crunch and capital outflow at an unprecedented pace poses tons of challenges to unprepared exporters and the government of Pakistan.

Pakistan's inflation eases as COVID-19 hammers economy

ISLAMABAD, April 30 (Reuters) - Pakistan's consumer price inflation eased to 9.5% in April, its statistics office said on Friday, extending a months-long decline as the economy tanks due to the coronavirus crisis despite three interest rate cuts.

The South Asian nation is struggling to keep its economy afloat as the reported number of infections from COVID-19, the highly contagious respiratory disease caused by the novel coronavirus, has risen to 16,817, with 385 deaths.

Consumer price inflation was 10.24% in March after having risen in January to 14.56%, its highest in over a decade, severely squeezing household budgets.

The central bank kept interest rates unchanged at 13.25% in January but, once the coronavirus began battering business and household finances, it slashed rates three times in recent weeks to 9% to help cushion the blow.

Pakistan now faces a balance of payment crisis as the economy heads towards a major recession with a 1.5 percent contraction forecast in the current financial year ending in June, compared with a pre-COVID-19 forecast of nearly 3% growth, according to the finance ministry and central bank.

Growth is projected to recover to about 2% in the 2021/22 fiscal year.

A steep drop in oil prices, which comprise most of Pakistan's import bill, has been welcome, allowing pump prices for petrol and diesel to be cut by 27% and 35% respectively since February, with the biggest cut coming on Thursday.

But critics say the government has not passed on the full advantage of the oil price fall to the public, instead raising taxes on petrol and diesel by up to 300%.
Pakistan agreed a $6 billion bailout from the International Monetary Fund last year and secured another $1.386 billion in rapid financing from the IMF at zero interest last month.
Islamabad is hoping for more bailout packages from the World Bank and other development partners as it plans to file for debt relief from G20 countries and bilateral partners, mainly longtime ally China.