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**Semester: 6TH**

**Assignment: MONETARY ECONOMICS   
 FINAL Term**

**Submitted to: Sir Zafar ul Haq**

**QUSTION NO 1**

**PART A:**

**What is monetary policy? Who formulates it and what are the quantitative tools of monetary policy?**

**ANS: Monetary policy** measures utilized by governments to influence economic activity, explicitly by controlling the provisions of money and credit and by altering rates of interest.  
 OR  
monetary policy, the premium side of monetary arrangement, refers to the exercises undertaken by a nation's national bank to control cash flexibly to achieve macroeconomic objectives that promote sustainable economic growth.

**Goals of monetary policy**

The objectives of monetary policy are to promote maximum employment, moderate long-term interest rates and stable prices. By actualizing successful monetary policy, the Fed can keep up stable price, accordingly supporting conditions for long-term economic growth and maximum employment.

**Formulates:**

Central bank such as SBP (STATE BANK OF PAKISTAN) issues Monetary Policy Statement and Decisions six times a year on its website. These documents provide analysis of current monetary conditions and sets out the national bank policy rate. Money related Policy Decisions are given each substitute month in, July, September, November, January, March and May.

**Quantitative tools of monetary policy**

**The instruments of Monetary Policy can be quantitative or qualitative in nature**

Quantitative instruments include

* Variations in reserve ratio requirements
* bank rate
* Open Market Operations.

**1. Variations in Reserve Ratio Requirements:** The RBI mandates it for commercial bank to keep a specific level of percentage of deposits Central Bank. There incorporate cash reserve and liquidity reserves. The basic or minimum cash reserve ration or proportion fixed by RBI is called Cash Reserve Ratio. The basic and minimum liquidity hold proportion fixed by RBI is called Statutory Liquidity Ratio (SLR).

**Changes in Bank Rate:**   
 The rate of interest at which the national bank loans cash to business banks is called bank rate or discount rate. An adjustment or change in bank rate influences cash and credit supply. On the off chance that the bank rate is expanded, borrowings by business gets costly, which in turn increases the lending rate. It is called hardening of interest rates and discourages retail borrowings.  
Likewise, decline in bank rate, reduce the expense and cost of borrowing for commercial banks. This declines and decreases loaning rates and encourages public borrowing with eases credit supply in the market.

**Open Market Operations (OMOs):**  Open market operations refers to purchasing and selling of state securities by RBI. The financial institution such that central bank sells securities to commercial banks and public. This increases money supply with RBI and at the identical time reduces deposits with depository financial institution (commercial bank). This also decreases credit creation capacity of commercial banks.

**------------------------------------------------------**

**Q1.PART B  
 What is the implication of Monetary Policy 2020 on our business activities in the recent pandemic situation?**

**ANS:**  
 Pakistan's financial development force may in any case stay positive yet from the new financial year, the nation needs a significant move in money related and monetary arrangements to counterbalance the unfavorable effect of coronavirus (Covid-19) on business and other factor, the Planning Commission advised a top legal body to take some changes in monetary policy.

Finance Adviser Dr Abdul Hafeez Shaikh said: “The public sector spending should be used as a tool to stimulate economic growth and spurt consumer spending.  
 The monetary policy which is design by government in Covid-19 crises which help the lower business and also help full for economy. The commission told the significant level gathering that Pakistan's economy may at present register positive development in the scope of 1.5%. But in case of complete lockdown in upcoming months, the economy may contract or may stop or Pakistan economy make shutdown.  
 It also sees inflation rate at 6% in the next fiscal year, which is lower than the State Bank of Pakistan and the International Monetary Fund objections and provides room for further cut in the interest rate, which was also very supportable for business because they can take loans at low interest rate and give back at easy installment. It’s may also help for economy to growth and became in stable position.

The policy set by MFPCB which may also helpful for the business and private sectors. MFPCB is a legal discussion that has been set up under a demonstration of parliament to organize money related, monetary and exchange strategies of Pakistan. Be that as it may, this month, the SBP prescribed the government to cancel the board, provoking the account counsel to pressure the significance of the body.  
 Best monetary policy Pakistan’s economy is still register positive, growth in the range of 1.5% even if partial lockdown conditions at June. All of these institutions have projected up to 1.6% contraction in economic growth in this fiscal year. Accommodative financial and money related approaches received by the legislature will be useful in animating monetary exercises. Both intrigue and deftly have been vexed and the overall population is standing up to peril evasion which influencing the business advantage and having no balance of trade.

The finance ministry has recommended only Rs600 billion for the PSDP in the budget, which the planning ministry wants to be increased substantially to boost economic growth Which may give some boost to the business, because when economy is stable business are run very smoothly and earn good profit margin.   
 The SBP has set the interest rate at 9% give relief to small business and large organization because they take loans with lower interest and run their business but various bodies and independent economists have called to further reduce it to at least 7% because due to lockdown in last some month, many business also at Finish stage government should give them more relief. The economy manager decided that the concerned government departments would further firm up their numbers. The participants emphasized the need for having in-house macroeconomic modelling capacity of stakeholder.

The finance secretary set first time primary balance posted surplus of Rs104 billion or 0.2% of the gross domestic product during July-March period of this fiscal year as compared to a deficit of Rs474 billion or 1.2 % of the GDP during the same period last year to stable the economy and business of Pakistan. For the following monetary year, the IMF needs financial relief of Rs1.2 trillion or 2.5% of the GDP, which may additionally smother the economic growth.

The pandemic has brought different difficulties for Pakistan's economy. Prior to Covid-19, the GDP growth was estimated at 3.24% for 2019-20 and after the pandemic, it may decline significantly which may affect business and economy as well. The national bank has given upgrade to the economy through a cut in the approach rate and expanding amount of cash by infusing extra liquidity.  
 Due to Covid-19 Imports will fall to $42 billion — $11.6 billion lower than estimates – mainly due to decline in international commodity and oil prices. There is a danger of decrease in settlements too. Decrease in trade also impact on business but oil price decrease by government which may help the organization to cut expense cost and increase their profit.

**QUSTION NO 2  
 PART –A   
 what is Interest rate? Differentiate between nominal and real interest rate?**

**ANS: Interest Rate:**

The interest rate is that the amount a lender charges for the utilization of assets expressed as a percentage of the principal. The rate of interest is often noted on an annual basis called the annual percentage rate (APR). The assets borrowed could include cash, commodity, or large assets like a vehicle or building.

OR

A rate of interest is defined as the proportion of an amount loaned which a lender charges as interest to the borrower, or loans expressed as an annual percentage. It’s the rate or interest, bank or other lender charges to borrow its money, or the rate a bank pays its savers for keeping money in an account

**Pakistan - Interest Rate Data**

| **YEARS** | **2015** | **2016** | **2017** | **2018** | **2019** |
| --- | --- | --- | --- | --- | --- |
| Policy Interest Rate (%) | 6.50 | 5.75 | 5.75 | 6.50 | 12.25 |

**Example**

Ali a buyer are paying cash for a home, he or likely will put off a large loan for a replacement residence. When the bank offers the loan to the client, it'll included a mortgage rate of interest.  
For example, let’s say the house costs $250,000. The longer term homeowner encompasses a payment of $10,000 in cash, but he or she is going to need a loan for the additional $240,000.  
The formula for determining what proportion interest he or she pays is: principal x rate x number of periods. During this case, the borrower can pay back a complete of $305,469 and make monthly payments of $2,546.

**Difference between nominal and real interest rate:**

|  |  |  |
| --- | --- | --- |
| **Basis** | **Nominal Rate** | **Real Rate** |
| **Formula** | Nominal Rate = Real Rate + Inflation | Real Rate = Nominal Rate – Inflation |
| **Inflation effect** | They do not have any effect of inflation | When inflation is greater than the nominal rate the real rate will be negative and when the inflation is less than the nominal rate the real rate will be positive. |
| **Investment Option** | Bonds usually quote nominal rates. This type of rates is usually quoted as coupon rate for fixed income investments as this rate is the interest rate promised by the issuer that is stamped on the coupon to be redeemed by bondholders | Investors who want to seek protection from inflation invest in Treasury Inflation-Protected Securities (TIPS), the interest of these securities is indexed to inflation. |
| **Example** | The rate of a Deposit is given as 2% p.a. on a $1000 investment. In nominal terms, the financier thinks that he is going to receive $200 as interest. | The rate of a Deposit is given as 2% p.a. on a $1000 investment and the rate of inflation is 3%. The actual percentage return the financier is going to earn is 2% – 3% = -1%. The return after considering the rate of inflation is negative. |

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**Q2.PART B:**

**What are money markets? Explain functions and importance of Money markets in Pakistan?**

**Definition:** The money market is a fragment of the cash or budgetary related markets where momentary development protections are arranged. As we can say a market or spot where exceptionally fluid monetary instruments are exchanged

OR

Money market instruments are protections that give associations, banks, and the lawmaking body with a great deal enormous sums capital for a short period of time. The period is for the time being, several days, weeks, or even months, yet for each situation not actually a year. The fiscal markets meet longer-term cash needs.

**Instruments of the Money Market**

1] Treasury Bills

2] Commercial Paper

3] Commercial Bill

4] Call Money

5] Certificate of Deposits

Functions of Money Market in Pakistan:

* To keep up monetary harmony among demand and supply of transient money related exchanges.
* Money market assumes a significant role of making supports accessible to numerous units or elements occupied with expanded field of exercises be it farming, industry, exchange, trade or some other business.
* By giving assets and funds to creating parts it helps in development of economy moreover.
* Another significant component that currency showcase gives is limiting of bills of trade which encourages development of exchange.
* Most likely it gives a base to the usage of money approach moreover.
* The money market gives chance to momentary ventures, which accommodate transient investment funds, which thus help development of capital base too.

**Importance of Money markets in Pakistan:**

**Financing Trade:**

Money Market plays important role in financing both internal and international trade. Commercial business is made available to the traders through bills of exchange, which are discounted by the bill market.

**Profitable Investment:**

Money market enables the commercial banks and central bank of pakistan to use their excess reserves in profitable investment. The main objective of the commercial banks is to earn income and revenue from its reserves as well as maintain liquidity to meet the uncertain cash demand of the depositors.

**Help to Central Bank:**

Though the central bank of Pakistan can function and influence the banking system in the absence of a money market, the existence of a developed money market smoothens the functioning and increases the efficiency of the central bank.

**Use of Surplus Funds:**

Money market use for surplus funds to financial institutions but also large non-financial business corporations, states and local governments.

**Promotes Liquidity and Safety:**

Money market is help full for Promotes Liquidity and Safety:

**Equilibrium between Demand and Supply of Funds:**

The money market of Pakistan brings equilibrium between the demand and supply of loanable funds.

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**QUSTION NO 3:**

**PART A:**

**What are foreign exchange markets and how it works?**

The foreign exchange market also known as the currency market forex, or FX, worldwide market center that decides the exchange rate for currencies around the world. Members can trade, purchase and sell or guess on monetary forms. Outside trade markets are comprised of banks, forex sellers, business organizations, national banks, speculation the board firms, multifaceted investments, retail forex vendors and financial specialists.

OR

The Foreign Exchange Market is where the purchasers and seller are engaged with sale and purchase of foreign currencies. As such, a market where the currencies of various nations are purchased and sold is known as foreign exchange market.

Main players of the foreign market and place are shown in the figure below:

* CENRAL Bank
* Broker
* Commercial bank
* Exports, importers, tourists, investors, Immigrants

**Foreign Exchange work**

The Forex (FX) market is the global marketplace for exchanging and trading monetary standards. It is decentralized – at the end of the day, it doesn't work in one specific spot as stock trades do. Any individual who purchases or sells a specific cash is getting to the Forex advertise. In this way, in case you're taking your compensation or annuity from the UK to Switzerland, you'll be utilizing the Forex market to sell your pounds for Swiss francs.

Obviously, expats are a long way from the main individuals who need to trade money. Worldwide exchange requires of all shapes and sizes organizations the same to burn through billions in outside monetary standards every day. Banks also deal with a universal scale, exchanging tremendous measures of money consistently. Thus, the Forex showcase is the greatest on the planet, exchanging over $5 trillion per day.

Forex merchants utilize the changing trade rates for their potential benefit. They purchase a money which they think will before long reinforce, and afterward, if effective, sell it once it is worth more. The best dealers are the individuals who can precisely foresee financial occasions and how they impact the money rates.

**Characteristics of FX Market**

* The FX market is right around a 24 hour market.
* Between bank brokers are significant players in FX showcase.
* 90% of exchanging happens regarding the US dollars.
* The purposes behind citing most trade rates against a typical money (a "vehicle cash")
* The FX advertise is an over-the-counter market.

There is no physical area where dealers get together to trade monetary standards. Or maybe merchants are situated in the workplaces of significant business banks far and wide and impart utilizing work stations, phones, messages, and other data channels.

**Functions of the Foreign Exchange Market**

* The foreign exchange Market is the component by which members
* Move buying power between nations;
* get or give credit to worldwide exchange exchanges, and
* Limit introduction to the dangers of conversion scale changes.
* The offices for supporting and hypothesis

**Foreign Exchange rate in Pakistan**

| **CURRENCY** | **SYMBOL** | **BUYING** | **SELLING** |
| --- | --- | --- | --- |
| [**[https://hamariweb.com/finance/images/USD.gif](https://hamariweb.com/finance/forex/usd-to-pkr.aspx) US DOLLAR**](https://hamariweb.com/finance/forex/usd-to-pkr.aspx) | USD | **167** | **167.5** |
| [**[https://hamariweb.com/finance/images/EUR.gif](https://hamariweb.com/finance/forex/eur-to-pkr.aspx) EURO**](https://hamariweb.com/finance/forex/eur-to-pkr.aspx) | EUR | **187** | **191** |
| [**[https://hamariweb.com/finance/images/GBP.gif](https://hamariweb.com/finance/forex/gbp-to-pkr.aspx) BRITISH POUND**](https://hamariweb.com/finance/forex/gbp-to-pkr.aspx) | GBP | **206** | **211** |
| [**[https://hamariweb.com/finance/images/AED.gif](https://hamariweb.com/finance/forex/aed-to-pkr.aspx) UAE DIRHAM**](https://hamariweb.com/finance/forex/aed-to-pkr.aspx) | AED | **44.5** | **45** |
| [**[https://hamariweb.com/finance/images/SAR.gif](https://hamariweb.com/finance/forex/sar-to-pkr.aspx) SAUDI RIYAL**](https://hamariweb.com/finance/forex/sar-to-pkr.aspx) | SAR | **43.7** | **44.2** |
| [**[https://hamariweb.com/finance/images/KWD.gif](https://hamariweb.com/finance/forex/kwd-to-pkr.aspx) KUWAITI DINAR**](https://hamariweb.com/finance/forex/kwd-to-pkr.aspx) | KWD | **516.5** | **519** |
| [**[https://hamariweb.com/finance/images/CAD.gif](https://hamariweb.com/finance/forex/cad-to-pkr.aspx) CANADIAN DOLLAR**](https://hamariweb.com/finance/forex/cad-to-pkr.aspx) | CAD | **122** | **126** |
| [**[https://hamariweb.com/finance/images/AUD.gif](https://hamariweb.com/finance/forex/aud-to-pkr.aspx) AUSTRALIAN DOLLAR**](https://hamariweb.com/finance/forex/aud-to-pkr.aspx) | AUD | **114** | **118** |
| [**[https://hamariweb.com/finance/images/THB.gif](https://hamariweb.com/finance/forex/thb-to-pkr.aspx) THAI BHAT**](https://hamariweb.com/finance/forex/thb-to-pkr.aspx) | THB | **5.4** | **5.5** |
| [**[https://hamariweb.com/finance/images/CNY.gif](https://hamariweb.com/finance/forex/cny-to-pkr.aspx) CHINESE YUAN**](https://hamariweb.com/finance/forex/cny-to-pkr.aspx) | CNY | **23.6** | **23.75** |
| [**[https://hamariweb.com/finance/images/HKD.gif](https://hamariweb.com/finance/forex/hkd-to-pkr.aspx) HONG KONG DOLLAR**](https://hamariweb.com/finance/forex/hkd-to-pkr.aspx) | HKD | **22** | **22.25** |
| [**[https://hamariweb.com/finance/images/DKK.gif](https://hamariweb.com/finance/forex/dkk-to-pkr.aspx) DANISH KRONE**](https://hamariweb.com/finance/forex/dkk-to-pkr.aspx) | DKK | **23.8** | **24.1** |
| [**[https://hamariweb.com/finance/images/NZD.gif](https://hamariweb.com/finance/forex/nzd-to-pkr.aspx) NEW ZEALAND DOLLAR**](https://hamariweb.com/finance/forex/nzd-to-pkr.aspx) | NZD | **99.65** | **100.35** |
| [**[https://hamariweb.com/finance/images/SGD.gif](https://hamariweb.com/finance/forex/sgd-to-pkr.aspx) SINGAPORE DOLLAR**](https://hamariweb.com/finance/forex/sgd-to-pkr.aspx) | SGD | **116** | **119** |
| [**[https://hamariweb.com/finance/images/NOK.gif](https://hamariweb.com/finance/forex/nok-to-pkr.aspx) NORWEGIANS KRONE**](https://hamariweb.com/finance/forex/nok-to-pkr.aspx) | NOK | **16.88** | **17.13** |
| [**[https://hamariweb.com/finance/images/SEK.gif](https://hamariweb.com/finance/forex/sek-to-pkr.aspx) SWEDISH KRONA**](https://hamariweb.com/finance/forex/sek-to-pkr.aspx) | SEK | **17.45** | **17.7** |
| [**[https://hamariweb.com/finance/images/INR.gif](https://hamariweb.com/finance/forex/inr-to-pkr.aspx) INDIAN RUPEE**](https://hamariweb.com/finance/forex/inr-to-pkr.aspx) | INR | **2.11** | **2.18** |

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**Q3.PART-B**

**Critically analyze the Federal Budget 2020-21?**

**Budget analysis:**

The federal budget for the fiscal year 2020-2021 comes at a difficult time when monetary development everywhere throughout the world has been seriously affected by the coronavirus pandemic. Apparently the legislature has endeavored to make a positive spending plan so as to give a type of help to the everyday citizens and ruled against troubling them with another arrangement of assessments. This, the administration trusts, would contribute in restoring monetary action that has deteriorated during the most recent couple of months.

**The budget 2020-21 has the following salient features:**

Total outlay of budget of Pakistan 2020-21 is Rs 7,294.9 billion. This size is 11 percent lower than the size of spending gauges 2019-20.

The asset accessibility during 2020-21 has been evaluated at Rs 6,314.9 billion against Rs 4,917.2 billion in the spending assessments of 2019-20.

The net income receipts for 2020-21 have been assessed at Rs 3,699.5 billion demonstrating an expansion of 6.7 percent over the spending appraisals of 2019-20.

The commonplace offer in government charges is evaluated at Rs 2,873.7 billion during 2020-21, which is 11.7 percent lower than the spending gauges for 2019-20.

The net capital receipts for 2020-21 have been assessed at Rs 1,463.2 billion against the spending evaluations of Rs 831.7 billion of every 2019-20 mirroring an expansion of 75.93 percent.

The outer receipts in 2020-21 are evaluated at Rs 2,222.9 billion. This shows a reduction of 26.7 percent over the spending gauges for 2019-20.

The general consumption during 2020-21 has been assessed at Rs 7,294.9 billion, out of which the current use is Rs 6,345 billion.

The advancement use outside PSDP has been evaluated at Rs 70 billion in the financial plan 2020-21.

The size of Public Sector Development Program (PSDP) for 2020-21 is Rs 1,324 billion. Out of this, Rs 676 billion has been apportioned to regions.

**REVENUE RECEIPTS:**

All out Federal Board of Revenue charges for the year 2020-21 are evaluated at Rs 4,963 billion.

Non-charge incomes for the upcoming year are assessed at Rs 1,108.9 billion.

Net income receipts are assessed at Rs 6,573.22 billion out of which commonplace offer is Rs 2,873 billion.

The net income receipts for central government in spending plan 2020-21 are evaluated at Rs 3,699 billion, demonstrating an expansion of 6.8 percent over the spending appraisals of 2019-20 and 19.24 percent over modified assessments of active monetary year 2019-20.

**EXTERNAL RESOURCES:**

The legislature acquired credits and awards to overcome any barrier between the income and expenditure. The net outer assets for 2020-21 after derivation of remote advances reimbursement (Rs 1,228 billion) and reimbursement of momentary credits (Rs 183 billion) have been anticipated at Rs 810.34 billion are lower by 73 percent and 64.34 percent separately when contrasted and spending plan and changed assessments 2019-20.

**Current Expenditures:**

Total current expenditures of federal government for the year 2020-21 is Rs 6,344 billion which are 16.7 percent and 12.99 percent lower when contrasted with the reconsidered estimation and genuine estimation of current uses during active year.

Mark-up installments for the year 2020-21 have been assessed at Rs 2,946 billion out of which Rs 2,631 billion would be paid on residential obligation and Rs 315 billion on outside obligation.

Expenditures of Rs 470 billion have been assessed for benefits which are 1.4 percent higher when contrasted with the updated evaluations of Rs 463.4 billion for the active year 2019-20.

For Defense Affairs and Services, a measure of Rs 1,289 billion has been evaluated for the year 2020-21 contrasted with overhauled estimation of Rs 1,227 billion for the active monetary year 2019-20. For awards and moves, Rs 904 billion have been evaluated against overhauled estimation of Rs 1,177 billion for the year 2019-20. Subsidies have been evaluated at Rs 209 billion against overhauled estimation of Rs 349.5 billion for 2019-20. For running of Civil government, Rs 475.7 billion have been evaluated for the monetary year 2020-21 against updated consumptions of Rs 445.8 billion of every 2019-20. The legislature has set the spending sum at Rs 7,294.9 billion.

The government spending plan for the money related year 2020-21 will have a shortage of Rs 3,500 billion. To give help to the individuals, there is no new duty in the 2020-21 spending plan. There will be no duty on coronavirus and malignant growth determination packs and the import charges on child's food supplement and diet food have been annulled as well. Expense exception is being given to abroad Pakistanis over the interest in sparing bills, and the development charge on auto carts, bike carts and up to 200cc bikes has been annulled.

The business charge rate for huge retailers has been diminished from 14 to 12 %. The choice was taken to encourage them as a result of the coronavirus episode. The administration has designated Rs208 billion for the Ehsaas Program for the lightening of neediness and helping poor people. The assets for advanced education have been reserved at 34 billion, while Rs 180 billion will be burnt through on effort, food and different segments. Assets worth Rs30 billion will be spent on the Naya Pakistan Housing Scheme which means to construct 10 million houses for the poor in Pakistan.

Pakistan Railways will be given Rs40 billion and Rs13 billion have been assigned for the government-run medical clinics in Karachi and Lahore. The government assistance support for the artistes has been expanded to Rs1 billion from Rs250 million on the suggestion of the president. For the wellbeing division, the administration has apportioned Rs20 billion, while Rs20 billion for science and data ventures. The administration has apportioned Rs70 billion for combatting the coronavirus and different fiascos and Rs80 billion for exceptional financial zones. This year, Pakistan has apportioned Rs70bn for water ventures.

Pakistan's Defense financial plan for 2020-21 is Rs1.289 trillion (practically 12% higher than last year's). Presently, individuals should show their CNICs while making an acquisition of over Rs 100,000. Prior, this was relevant on Rs 50,000 buy. The legislature has diminished the government extract obligation on concrete from Rs2 to Rs1.75 per kilogram. To counter the effect of environmental change, Rs6 billion will be spent.

The legislature will likewise be spending on improvement ventures in extraordinary territories. Forty billion rupees will be spent in Gilgit-Baltistan and Kashmir, while Rs48 billion on consolidated areas. The government extract obligation will be expanded on e-cigarettes. The FED on imported cigarettes, 'bidi', and stogies has been expanded to 100%, it was 65% previously. The assessment on cigarette's channel bar has been expanded from Rs0.75 to Rs1.

The FED on caffeine-related items is being expanded from 13% to 25% to dishearten their utilization. Extract obligation has likewise been forced on twofold lodge pick-ups. The FED on concrete has been decreased by 25 paisas to Rs1.75. The FBR has set his income focus at Rs 3,900 billion this year. It is prescribed that administrative obligations are diminished to stop the sneaking of items.

My opinion It seen to be good budget because at situation pandemic condition it hard to give such a budget who have high revenue and low expense and proving platform for business industries but the individuals from the Opposition arranged a conflict while the financial plan was being introduced. They recited mottos over the sugar emergency request and sacking of Pakistan Steel Mills representatives.

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