Monetary Economics Assignment

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Monetary Policy

State Bank of Pakistan. Monetary Policy includes national banks' utilization of instruments to impact loan fees as well as cash flexibly in the economy with the target to keep by and large costs and money related markets stable.
Monetary policy, the interest side of monetary strategy, refers to the activities embraced by a country's national bank to control cash flexibly to accomplish macroeconomic objectives that advance feasible financial development.

Effect of lower interest rates

The lower the loan cost, the more willing individuals are to obtain cash to make enormous buys, for example, houses or vehicles. At the point when customers pay less in premium, this gives them more cash to spend, which can make a far reaching influence of expanded spending all through the economy.

Negative effect of lower interest rates

Lower financing costs are terrible news for savers. For instance, resigned individuals may live on their reserve funds. In the event that loan costs fall, they have lower discretionary cashflow thus will likely spend less. On the off chance that a nation has a high extent of savers, at that point lower loan fees will really lessen the pay of numerous individuals

Effect of high interest rates

Higher interest rates will in general moderate economic development. Higher interest rate increment the expense of borrowing, diminish extra cash and consequently limit the development of buyer spending. Higher interest rate will in general decrease inflationary weights and cause a gratefulness in the exchange rate.

Negative effect of high interest rate

High interest rates increases unemployment in an economy. Rather doing business activities in the country people keep their money in the banks so they could get high returns from the bank without any risks as it is more easy for people. Investors are discouraged to invest in businesses because they are giving high return to the banks for their loans.

Current pandemic effect on Pakistan economy

KARACHI - The State Bank of Pakistan on Tuesday reduced its policy (discount) rate by 75 basis points, to 12.50 percent from 13.25 percent, along with two other steps to deal with the situation created after the spread of COVID-19.

1. Firstly, the Monetary Policy Committee of State Bank cut its policy rate by 75 basis points. The dominant development since the last MPC meeting was the outbreak of the Coronavirus pandemic. This had precipitated a slowdown in world demand and volatility in global financial markets, as well as a steep fall in global oil prices.

2. Secondly, SBP announced a Temporary Economic Refinance Facility (TERF) and its Shariah compliant version to stimulate new investment in manufacturing.

Under this scheme, the SBP will refinance banks to provide financing at a maximum end-user rate of 7 percent for 10 years for setting up of new industrial units. The total size of the scheme is Rs 100 billion, with a maximum loan size per project of Rs 5 billion.

3. DrReza Baqir said the third step of SBP was Refinance Facility for Combating COVID–19 (RFCC) and its Shariah compliant version to support hospitals and medical centers in combating the spread of COVID–19.

Under this scheme, the SBP will refinance banks to provide financing at a maximum end-user rate of 3 percent for 5 years for the purchase of equipment to detect, contain and treat the Coronavirus. The SBP would provide this facility to banks at zero percent. All hospitals and medical centers registered with federal or provincial health agencies and which were engaged in the control and eradication of COVID-19 would be eligible for this facility.

Pakistan current interest rates effect on economy

As state bank of Pakistan has not reduced interest rate by huge margin to 12.75 from 13.25 which is not a huge difference. Therefore they have not encouraged investors investment and business activities. In situations like lockdowns in pakistan, markets are not running effectively. Exports have decreased and there is still political instability which is not letting develop economy. Stock markets value is decreased (current Index 42,526.75). individuals disposable incomes have decreased during lockdown. One of the main causes of inflation in pakistan is taking loans from IMF. As pakistan has taken 6 Billion dollar for 3 years on request of prime minister of Pakistan Imran Khan. Returning these loans government will put high taxes on public which leads inflation, increase in prices of daily goods and services which the poor can not afford. Looking at these causes State bank Pakistan and Government of Pakistan should reform interest rate policies. They should lower interest rates so people can easily borrow money for investment so there are more business activities in there country. It will increase employment opportunity for people and inflation will be stable in country.