

# MONETARY ECONOMICS

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## MONETARY POLICY ANALYSIS

Monetary policy is a central bank activity and communication that manages the money supply. The cash offer includes types of loans, cash, cheques and funds on the money market. The most important of these types of money is credit. The credit includes loans, bonds and mortgages.

Monetary policy increases liquidity to create economic growth, reduces liquidity to prevent inflation. Central banks use interest rates, bank reserve requirements and the number of government bonds that banks should keep. All these tools affect the value of loans given to banks. The volume of loans affects the provision of money.

Recently, the Central Bank of Pakistan cut the benchmark rate by 100 basis points to 8% to help people, businesses and the economy fight against the COVID-19 pandemic.

Interest rate is a tool for the SBP to balance inflation and domestic economic activities. The MPC highlight that the coronavirus outbreak poses a unique challenge to monetary policy due to the temporary deterioration of uneconomic resources and economic activities needed to combat the epidemic.

While a simpler monetary policy cannot affect the rate of contagion transmission nor prevent a short-term decline in economic activity due to obstruction, it can provide liquidity support to households and businesses to help them penetrate the temporary phase of the economic disruption that follows.

"In particular, successive cuts in key interest rates and significant low-cost loans from improved refinancing opportunities under SBP have contributed to maintaining credit flows, boosting borrowers, cash flows and supporting asset prices." Coronavirus has severely affected economic activity. Lower interest rates on low inflation forecasts will help the economy recover by 2-3% in the next financial year (FY21).

The recent massive fall in oil prices in international and domestic markets is expected to push inflation further down to 8% in the coming months. Inflation fell to a 10-month low of 8.5% in April. However, according to the Pakistan Bureau of Statistics (PBS), it remained slightly above 8.3% in the same month of April last year.

However, the MCP was concerned about inflation. "Inflation may fall more than expected if economic activity does not recover as expected for next year," On the other hand, there are some positive risks due to possible shocks in food prices related to adverse agricultural conditions. Price pressures could also arise if the economy expands in the second half of the 21st financial year.

The recent decline in portfolio inflows will be offset by official flows committed by the international community, so that Pakistan's external position remains fully funded. Taken together, these developments, supported by the flexible exchange rate regime, should continue to support the continued accumulation of SBP foreign exchange reserves.

However, the significant decline in economic activity since March has had a significant impact on tax revenues. Tax revenues plummeted to 15% in March and April after rising to 17.5% from July to February 20.

Large-scale production saw a sharp drop of 23pc in March due to the virus. At the same time, high-frequency demand indicators such as credit card spending, cement shipments, off-take credit and POL sales showed a decline in domestic economic activity in both March and April.

One thing to note that there is no perfect strategy. The best strategies are to lower interest rates, develop a locally weighted tax policy and some intrusion.

Firstly, we can look at the United States, which have received a huge stimulus package to keep the economy running and maintain a competitive advantage over China. The U.S. wrote a \$1,200 incentive check to all citizens over the age of 16.

We have to realize that Pakistan is a very different country, also in terms of economic activity. Sialkot's industrial economy is not the same as the agricultural economy of southern Punjab. The distribution of the population also varies considerably. This is why fiscal policy across Pakistan must be implemented at the native district level and not at the national level. If a region is suffering from a fast increase in coronavirus cases, local government should implement a policy that will help local businesses, hospitals and people overcome the trend with the help of provincial and national governments. In a favorable strategy, tax rates will also vary from province to province, depending on how hard the region has been affected.

The State Bank should continue its quantitative easing policy by injecting funds into the economy. This can be achieved by buying bonds on the open market and helps ease the impact of outflows from several collapsed sectors. This can lead to inflation if the government decides to

print money to do so. Short-term controlled inflation eventually devalues the currency. But it's for Fiat currency. It is a tool that absorbs economic shocks and stimulates the economy in the short term.

There is no doubt that Pakistan will emerge from the crisis more than ever if important measures can be taken in time. These policy changes in the short term will allow market watchers to collect data on the impact of economic behavior. This can be very effective in the future and really help the government get price volatility or bottlenecks in the country that has hampered the economy for decades.

