

MONETARY POLICY ANALYSIS

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Monetary policy is a mechanism put forward by the central bank to influence interest rates and maintain the supply of money in economic policy used by the government of the country to achieve desired objectives i.e. consumption, growth and liquidity. To increase economic growth central bank's actions and communication's are directly related to the layout of monetary policy.

According to the State Bank of Pakistan monetary policy is the best criteria to accomplish these objectives on a sustainable basis is to maintain low inflation and stability. Such favorable conditions help in growth and employment over a time, moreover it helps in uncertainties about future prices of goods and services, this results in a better decision for people and businesses to make economically important decisions i.e. consumption, saving & investments accordingly.

Recently the world economy has been badly damaged by the killer pandemic known as Corona virus and its injurious implications has cornered the Pakistan economy in a very challenging position. The effect of pandemic on the overall economy we need to consider the elements that are contributing toward the economy of Pakistan and then evaluating how is pandemic affecting those elements. The Economy of Pakistan is semi-industrialized, primary export commodities include textiles, leather goods, sports goods, chemicals and carpets/rugs.

Highlighting the export element of the Pakistan economy: Considering the overall lockdown and Pandemic situation, it would not be wrong to say the export element of Pakistan has been greatly affected since all the developed countries (those who buy goods from Pakistan) are not importing from Pakistan. With the lockdown, the consumption of the commodities listed above would be drastically affected in those countries and hence less demand. Till this point it's pretty much unclear when shall this virus vanish off and so as lockdown restrictions.

The varying lockdown across the country has mostly influenced the varying daily wagers, There are two factors to be considered, one-less work for the local labor in Pakistan which mean less payment to them, It refers Pakistan will have to initiate Financial aid program to support the working class in industries (Mostly labor), which will definitely put a dent in Pakistan's economy. Second, Pakistan won't be getting any foreign currency due to less export, which is another negatively contributing factor to the economy of Pakistan.

Examining the dire situation the government has decided to ease monetary policy which plays

safe from transmission of the infection and hold economic activity providing liquidity support to needy families and businesses. Practicing this coordinated policy for two months by SBP, Government of Pakistan and international community has supported the growth, employment and financial stability. It will later on provide support in recovery of the economy. Thus, keeping current situation in view, MPC planned changes in monetary conditions and inflations that have direct binding with the population.

Upon further developments MPC decided to significantly reduce petrol and diesel prices by 30-40% in response to dropped oil prices globally, which has improved the outlook for inflation. Gasoline prices, Octane-95, 25-May-2020: The (Average) price of gasoline around the world is 148.06 Pakistan Rupee per liter. However, there is substantial difference in these prices among countries. As a general rule, richer countries have higher prices while poorer countries and the countries that produce and export oil have significantly lower prices. One notable exception is the U.S., which is an economically advanced country but has low gas prices. The differences in prices across countries are due to the various taxes and subsidies for gasoline. All countries have access to the same petroleum prices of international markets but then decide to impose different taxes. In Pakistan, the current price is around 81 rupees, but we need to bear in mind that it is inclusive of tax. In comparison to the world average, the prices are still low but there is a point to consider, which is consumption, with the lockdown imposed and industries not working to their full potential and capability.

According to data collected there has been a sharp decline by large scale manufactures (LSM) due to no participation in economic and social activity in fear of virus spread, Less daily to daily spending, construction related commodities i.e. (cement, steel, bricks) credit card spending and Petrol Oil & lubricants (POL) has a shrinking effect on the economy in both March and April. As per Governments plan they have initiated phased lifting of restrictions for different economic sectors conditional on the future course of pandemic. In addition MPC noted and studied ease lockdowns in countries like China and others, activity in the service sector and consumption to remain dim for longer time.

The GOP has decided like the rest of developed countries to ease locked down, a concept called Smart lock down initiated to provide support to economic activity, yet its totally uncertain there can be possible rise in infection again and could prompt fresh lockdowns.

International assistance and timely planned policy our foreign reserves were well maintained and kept the threshold to 12B.

One cannot comment if the lower prices can actually positively contribute toward the Pakistan economy. We need to consider a few factors, for instance, the consumption and the amount of benefit we were getting before the pandemic by using petrol and after the pandemic, which will put us in a situation to evaluate the true implication of lower petrol price.

Food industry plays a vital role in Pakistan economy, since Pakistan is an agricultural country mostly we grow our own food. We might face shortfall food during the pandemic, and we will have to import the food from the neighboring countries. Locust as well along with pandemic, which is not allowing the farmer to take care of the crops, destroys our crops. If we end up importing food items from other countries, this could mean getting food items at inflated prices since the situation is not favorable right now and affecting the economy in the worst way.

Local industries such as wheat, rice & sugar industries are also affected in two ways; labor isn't available to work due to lockdown and which means less production. Demand could be variable, for now we can't comment on consumption because we do not have enough data to support any claims. But in any situation, it is bad for the economic process, if the demand is lower it means less taxes will be collected but on other hand if the demand is high and supply is high, then we have to resort to import which also means more expensive products and subsidies would be needed.

External sector has been most influenced by this pandemic, Both import and export has seen drastic fall since this virus outbreak, according to Pakistan Bureau of Statistics Exports declined 54% and imports 32% although remittances and reimbursement has remained flexible. As predicted the risk and economic challenges are higher across the globe, especially in oil exporting countries.

Currently Pakistan's external position remains stable as it has been supported and funded by the international community.

In addition fiscal sector has also been swayed, Before virus outbreak Government revenue collection was on track but due to closure of businesses economic activity slow down which

resulted in 15 % decline in tax revenue for the government, at this point Government cannot bear such decline as our health, businesses, households and more departments are connected to tax revenue. The fiscal deficit is expected to increase with the current trend.

To further explain this, the decrease in the collection of taxes and with aid programs to help those who won't be able to support themselves during the pandemic, the Pakistani economy is under great pressure, due to this purpose either the government has to redirect the funds from other projects which would definitely further delay the development, or support from foreign aid but in longer term both the options are not feasible. The Maintenance economy of Pakistan is dependent on the running businesses and industries, and if the pandemic existed for a longer period, it would have drastic implications on Pakistan economy.