

Monetary policy

- Issued by SBP
- Issued 6 times in a year
- Monetary policy committee issued

Inflation:

- Too much money chases few goods
- Price of goods and services are increases
- Value of money decreases
- Those who borrow money get benefitted
- Producer will earn more profit
- Imports increases and exports decreases

Deflation:

- Too less money chases too much goods and services
- Less money
- Low purchasing power
- Low wage rate
- Unemployment rate increases

Instruments of Monetary Policy

Direct Instruments

- **CRR (Cash reserve ration):** the share of Net demand and time liability (NDTL) that bank must maintain with SBP, 5%, Daily

NDTL

- **SLR (statutory liquidity ratio):** the share of NDTL that bank must maintain in cash, gold, govt securities. 19%, 14%, daily
- **Refinancing Facility:** SBP provide loan to banks.

Indirect Instruments

- **Repo Rate:** SBP provide loan to banks for short term. 8.5%, max 90days, max .5% of NDTL
- **Bank rate:** SBP extend time period of short term loan. 10%
- **Reverse Repo Rate:** SPB collect loan from banks. Mostly in deflation, 10.5%
- **Liquidity Adjustment Facility (LAF):** it is a combined operation of RR & RRR. Gap b/w RR n RRR ($10.5\% - 8.5\% = 2\%$ is called LAF corridor)
- **Open Market Operations**