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Discussion and Analysis of the Monetary Actions of the Three Central Banks to Defend Their Corresponding Economies After the Outbreak of COVID-19

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Abstract: The COVID-19 pandemic jeopardized and risked the United States, China, and Pakistan's central banks' monetary policies, slashing growth, derailing recovery, and pushing the countries' most vulnerable further into poverty and joblessness. And the economic turbulence spurred by the pandemic confronts central banks worldwide with new kinds of monetary challenges, as in Eurozone the situation is more than ever complicated because of heightened volatility emanating from a multitude of monetary policy emergency responses: central banks' intensified bond and securities purchasing programs coupled with negative interest rates. Accordingly, the existence of cyclical trade-off between stabilizing a monetary union, tailing off expansionary monetary policy and maintaining free capital mobility underscores the importance of resolving the trilemma without jeopardizing the currency and financial stability. Furthermore, the 2020 bear market was triggered by coronavirus-induced economic uncertainties, economic fluctuations, and monetary turbulences proliferating across the global financial markets and causing economic meltdowns in most developed countries including the U.S. and China and developing countries like Pakistan as well. And resultantly, the rapid economic uncertainty, and disruptions caused stock markets' plunging into a bear market in early 2020. This needs carefully designed and result-oriented structural reforms in monetary policies by the central banks concerned to ward off the negative effects of inflation and unemployment; triggering growth rates, boosting investment and exports, stimulating stock and financial markets and strengthening economic muscles.

Keywords: Covid-19, Federal Reserve, PBoC, SBP, Monetary, Quantitative Easing, RRR, Trilemma, Bank Lending, Liquidity, Inflation.

1 Monetary responses by the Federal Reserve

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With the eruption of COVID-19, the Federal Reserve experimented with a broad array of monetary actions to minimize the economic loss and announced up to $2.3 trillion in lending to finance dwindling financial markets, households, financially-stressed employers, and state and local government machineries. Jerome Powell, chair of the Federal Reserve Board of Governors, said in April, 2020, "We are deploying these lending powers to an unprecedented extent [and]… will continue to use these powers forcefully, proactively, and aggressively, until we are confident that we are solidly on the road to recovery".[1]

The Federal Reserve took the following monetary policy measures to support the American economy and financial markets:

1.1 Near-zero interest rates

1.1.1 Federal funds' rates

In March, 2020, the Federal Reserve took a bold monetary decision by lowering down federal funds' rates from 1.5% to a range of 0% to 0.25%.[2] This move was aimed at lowering the cost of borrowing on home equity loans, auto loans, mortgages, reduction in interest income paid to savers, and other loans. Such monetary actions not only affect short-term rates, but longer-term rates as well.

1.1.2 Forward monetary guidance

In September, 2020, the Federal Reserve took new monetary policy framework by putting downward pressure on longer-term rates. In this case, the Fed offered forward guidance on the overnight rates and on the future course of action of its key interest rates, stating that interest rates will remain down "until labor market conditions have reached levels consistent with the Committee's assessment of maximum employment and inflation has risen to 2% and is on track to moderately exceed 2% for some time".[3]

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[1] Jeffery Cheng, Tyler Powell, Dave Skidmore, and David Wessel, *"What's the Fed doing in response to the COVID-19 crisis? What more could it do?"* (2021).

[2] Ibid.

[3] Ibid.

2 Supporting financial markets

2.1 Securities purchases (quantitative easing)

On March 15, 2020, the Fed announced that it would purchase at least $500 billion in Treasury securities and $200 billion in government-guaranteed mortgage- backed securities over "the coming months." This monetary action was taken to increase cash flow for the smooth functioning of financial markets. Then on March 23, 2020, it made the purchases open-ended, with the objective to buy securities and Treasuries bonds "in the amounts needed to support smooth market functioning and effective transmission of monetary policy to broader financial conditions." Henceforth, market functions improved. Later on, on June 10, 2020, the Fed announced buying at least $80 billion in Treasuries and $40 billion in commercial and residential mortgage-backed securities until further orders. In 2020, the Fed accelerated and outright speeded up its 'securities purchase policy' from $3.9 trillion to $6.6 trillion.[4]

2.2 Lending to financial institutions and firms

Through the revised Primary Dealer Credit Facility (PDCF), the Federal Reserve offered low interest rate (currently 0.25%) loans up to 90 days to 24 large financial institutions. And these institutions provided the Federal Reserve with investment grade debt securities, commercial papers, municipal papers, and equities, as collateral. This monetary tool injected money into the credit markets with the goal to keep them functioning. On March 8, 2021, the Fed stated that this program would last till March 31.

2.3 Scaffolding money market mutual funds

Under the guidance of Federal Reserve, the Money Market Mutual Fund Liquidity Facility (MMLF) was reactivated; which authorized the banks to purchase commercial papers and Treasury securities from prime money market funds, as collateral. The Federal Reserve allocated $ 10 billion [5]

[4] Ibid.

[5] Ibid.

to increase liquidity against securities, but the MMLF expired on March 31, 2021, because of its limited application. The Fed said that the facility "will assist money market funds in meeting demands for redemptions by households and other investors, enhancing overall market functioning and credit provision to the broader economy."

2.4 Application of repo operations

Federal Reserve's repurchase agreement (repo) operations were extensively used to increase the volume of liquidity in money markets. This monetary action essentially offered an unlimited amount of money. Fluctuations in the repo market greatly affected the federal funds' rate, disturbing price stability and employment ratio. But, Federal Reserve's facility made cash available to the primary dealers in exchange for government-backed securities and Treasury bonds. The Federal Reserve greatly expanded this facility both in money offered and the maturity period of the loans. As a result of it, the Federal Reserve offered $1 trillion in daily overnight repo, $500 billion in one-month repo, and $500 billion in three-month repo. After March, 2021, the Federal Reserve also increased the amount of per day of overnight repo per borrower, from $30 billion to $80 billion.[6]

3 Encouraging banks to financing and lending

3.1 Direct lending to commercial banks

To facilitate the banking sector, the Federal Reserve decreased the rate from its discount window by 2 percentage points, from 2.25% to 0.25%, which it charges the banks for loans from its discount window operations. The Federal Reserve also extended the terms of these loans from overnight to ninety days. The Federal Reserve released money against securities to increase cash flow for banks' functioning.

3.2 Temporarily relaxing regulatory measures

The Federal Reserve also encouraged both largest and community banks to dip into their regulatory capital and liquidity buffers to stimulate

[6] Ibid.

lending during the crisis. The Federal Reserve used TLAC (total loss-absorbing capacity), as a monetary tool to increase lending. It also advised big banks to suspend buybacks of their shares. And the Federal Reserve also gave an advisory to the banks to eliminate banks' reserve requirement----though largely irrelevant but, the Federal Reserve considered it necessary tool to accelerating cash flow.

4 Supporting businesses and corporations

4.1 Direct financing to major corporate employers

On March 23, 2020, the Federal Reserve established two new lending facilities: Primary Market Corporate Facility (PMCCF) and Secondary Market Corporate Credit Facility (SMCCF), in a significant monetary decision, to support highly rated corporations, keeping the financial markets moving on. Under these moves, the Federal Reserve purchased existing corporate bonds, and exchange traded funds from the corporations, so that they had cash to pay to suppliers and employees. For this reason, the Federal Reserve stated, "these facilities would allow companies access to credit so that they are better able to maintain business operations and capacity during the period of dislocations related to the pandemic." Initially Federal Reserve injected $100 billion to increase liquidity and announced backstop up to $750 billion of corporate debt. And, the Federal Reserve also received $75 billion from the U.S. Treasury from its Exchange Stabilization Fund to cover potential financial losses. The Federal Reserve also announced on June 2, 2021, that it would gradually sell off its $13.7 billion portfolio of corporate bonds.[7]

4.2 Use of Commercial Paper Funding Facility (CPFF)

To inject more money into the money market the Fed purchased commercial paper, through the CPFF, and lent directly to corporations for up to three months, at a rate between 1 to 2 % points. The Federal Reserve validated this action by saying, "An improved commercial paper market will enhance the ability of businesses to maintain employment and investment as the nation deals with the coronavirus outbreak." Apart from non-bank lending facilities, the Federal Reserve put $10 billion into the

[7] Ibid.

CPFF to cover any losses. The Commercial Paper Funding Facility lapsed on March 31,2021.[8]

4.3 Giving loans to small and medium sized businesses

Through Main Street Lending Program, Paycheck Protection Program (PPP), New Loans Facility, Expanded Loans Facility, and the Priority Loans Facility the Federal Reserve announced to fund up to $600 billion in five-year loans. Businesses up to $5 billion in annual revenue can benefit these corporate credit facilities. The Federal Reserve injected $75 billion into the three Main Street Programs to cover losses, too. It also increased maximum loan facilities for all eligible borrowers with extension in maturity. In addition, the Paycheck Protection Program Liquidity Facility also facilitated the small business enterprises. The Federal Reserve extended the PPP Liquidity Facility till June 30, 2021.[9]

4.4 Arranging loans for non-profit institutions

Through the Main Street Lending Program, the Federal Reserve provided loans to non-profit institutions, including social service organizations, schools, and hospitals. These loans were offered for five years, but payment of principal was deferred for the first two years. This program, with the rest of the funding facility, lapsed on December 31, 2020.

4.5 Financing households and consumers

On March 23, 2020, the Federal Reserve announced Term Asset-Backed Securities Loan Facility (TALF) to support lending to consumers, households, and small businesses. These loan facilities included auto loans, student loans, and credit card loans. Initially, the Federal Reserve allocated $100 billion[10] in new credit. Later on, the Treasury allocated $10 billion from the Exchange Stabilization Fund, too.

5 Supporting state and municipal borrowings

5.1 Direct money lending to state and municipal governments

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[8] Ibid.
[9] Ibid.
[10] Ibid.

Under the Municipal Liquidity Facility, the Federal Reserve allocated $500 billion to loan to the government entities that had investment-grade credit ratings as of April 8, 2020 in exchange for notes tied to future tax collections with maturities of less than three years. Later on, the Federal Reserve with the approval of the U.S. Treasury provided additional $35 billion to cover any potential losses.[11]

5.2 Supporting municipal bond liquidity

The Federal Reserve through its credit facilities such as, Money Market Mutual Fund Liquidity Facility (MMLF), and Commercial Paper Funding Facility (CPFF), funneled cash into the municipal debt market backed by tax-exempt state and municipal securities, where liquidity was under stress, with maturities up to 12 months.

6 Protecting US money markets from international pressures

6.1 International swap lines

The Federal Reserve is exchanging U.S. dollars with other central bank's currencies, so they can lend to commercial banks. In exchange the Federal Reserve gets foreign currencies charging interest on the swaps. In this case, five foreign central banks have permanent swap lines with the Federal Reserve. The Federal Reserve has, too, lowered the rate it charges on those swaps with central banks in the Eurozone, England, Canada, Switzerland, and Japan, and extended the maturity as well. It has extended temporary swaps to the central banks of New Zealand, Sweden, Brazil, Korea, Singapore, Denmark, Mexico, Australia, And Norway. These temporary swaps ended on September 30, 2021. The Federal Reserve also through a new repo facility called Foreign and International Monetary Authorities (FIMA) is offering dollars to central banks which do not have an established swap line with it. This monetary action also included overnight dollar loans to the central banks against collateral.

7 Critique on federal reserve's monetary actions

When the financial markets are strangulated, business enterprises, and firms tend to draw on bank lines of credit facilities, and that can lead banks to sell securities and unlimited amount of Treasury bonds or pull

[11] Ibid.

back on other loans. The Federal Reserve has been supplying 'unlimited liquidity' (unlimited QE) to the banks, to confronting the "severe coronavirus disruptions" so they can meet credit constipation relieving balance sheet strains. With the credit injections, the Federal Reserve has been trying to keep the capital markets functioning as smoothly as possible. The statement of Don Kohn, former Federal Reserve Vice Chair, validates Federal Reserve's monetary actions, in these words, "The Treasury market in particular is the foundation for trading in many other securities' markets in the U.S. and around the world; if it is disrupted, the functioning of every market will be impaired. The Federal Reserve's purchase of securities is explicitly aimed at improving the functioning of the Treasury and MBS (Mortgage-backed Security) markets, where market liquidity had been well below par in recent days." [12]

8 Recommendations

Here are some more monetary measures the Federal Reserve could take into action:

- It could lower interest rates below zero, as several other central banks have moved to negative rates but, the Federal Reserve said it probably would not do so.
- The central bank had room to expand its lending facilities. As of March 31, 2021, the Money Market Mutual Fund Liquidity Facility, the Commercial Paper Funding Facility, and the Primary Dealer Credit Facility will lapse. Only the PPP Liquidity Facility was extended through June 30, 2021.
- The Federal Reserve could restart the 'Term Auction Facility', as an alternative to the discount window. This could boot banks confidence flushing out their fear to be labelled as 'financial weak'. Under the TAF, the Fed auctioned 28-day and, later 84 day loans to U.S. and foreign banks. The TAF is considered a better monetary tool than that of open market operations. Because TAF helps promote the distribution of liquidity when unsecured bank funding markets face financial constraints. During the crisis the TAF borrowing peaked at $450 billion.

[12] Ibid.

- The Federal Reserve should designate more financial firms as primary dealers to borrow from the Primary Dealer Credit Facility. But it designated only two dozen firms as primary dealers. In addition, hedge funds and other institutions can be included in this category. This facility can also be extended through December, 2021.
- Strengthening its forward guidance coupled with extraordinary measures for maintaining massive securities purchases, and near-zero interest rates, unless sound economic conditions are achieved, can yield better results.
- The Federal Reserve should launch another policy tool, too, --- ‘Yield Curve Control’ to cap somewhat longer-maturity yields ranging from two to three years, at low levels, by deciding to purchase whatever amounts of Treasury bonds and securities are necessary to cap the rate. During the pandemic-hit crisis other central banks deployed this policy.

9 Monetary responses by the People’s Bank of China

With the COVID-19 proliferation, to avoid economic upheavals, the PBoC deployed a package of monetary actions to support the financial markets and banks. The People’s Bank of China (PBoC) eased the credit market by using ‘restrained monetary’ policy instruments, including loan facilities, the reserve requirement ratios, open market operations, rediscount policies, and refinancing. In addition, the central bank implemented a series of financial support measures, especially for small and medium-sized enterprises (SMEs), including increasing debt rollovers, renewal of loans, provision of specific credit lines for the resumption of production, and reduction in interest rates. The central bank also supported and encouraged ‘Ant Financial’ and other online financial companies to ease financing for small and micro businesses.

10 Monetary responses: credit easing, loan rate reductions and debt rollovers

The PBoC encouraged and supported the financial institutions to cut loan interest rates, providing additional credits to antivirus-related materials manufacturing firms, daily necessity retails and delivery sectors, and producers of medical gadgets, too. The central bank asked the commercial banks to roll over debt contingencies for SMEs, improve quality of services, including expanding the circle of e-payments and online banking services, and launching a ‘green channel’ for coronavirus-related business activities. The central bank offered additional credit to the trading industry for the arrangement and importation of medical materials from abroad. The China Banking Regulatory Commission (CBRC) advised the commercial banks to adjust personal loan repayment mechanisms for credit cards, delayed repayment periods, and hosing mortgages. By March, 2020, the banking sector had injected RMB 1.4 trillion into the economy. The central bank encouraged internet-based financial companies to ease loans access for small and micro businesses. The central bank cut its targeted reserve requirement ratio by 0.5 to1 percentage points and released RMB 550 billion for long-term funds.

11 Monetary policy measures taken by the PBoC

Amidst the considerable pandemic-induced economic shock, the PBoC used a number of monetary policy tools to minimize the economic repercussions of the crisis.

11.1 Reserve Repo Rate Operations (RRR)

The PBoC, deployed reserve repo operations’ tool to increase sufficient cash flow in the financial markets. Through reserve repo operations the central bank injected, in the first place, RMB 1.2 trillion in liquidity into the banking sector by lowering repo rates by 10 basis points, and again injected RMB 500 billion into the banking sector, then further injected RMB 900 billion into the banking sector, again RMB 100 billion were injected into the banking sector, followed by provision of RMB 50 billion in liquidity into the banking sector with a cutting of repo rates by 20 basis points. To further boost liquidity into the financial markets, the central bank injected RMB 20 billion, RMB 670 billion, RMB 1.54 trillion, and RMB 130 billion through RRR coupled with RMB 900 billion through MLF operations, and again RMB 100 billion with 20 basis points cut through MLF operations, into the banking sector. The central bank also announced plans to support bond issuance by financial institutions to increase cash flow. In addition, it decreased one-year loan prime rate by

20 basis points and five-year loan prime rate by 10 basis points, too. PBoC also lowered relending and discount rates by 25 basis points. Furthermore, the central bank earmarked RMB 900 billion especially for the small and medium-sized enterprises (SMEs) through 'relending', 'low-cost funds', and 'rediscount quota' with lower rates by 25 basis points to 2.5%, and RMB 550 billion in long-term funds through required reserve ratio (RRR), with cuts of 50-100 basis for loans. Further, RMB 300 billion in special central bank lending were allocated by the central bank to provide low-cost funds for banking lending, supporting coronavirus prevention and control programs, with financial costs below 1.6%. To increase cash flow into the economy the State Council also increased central bank's rediscount quota and relending by RMB 1 trillion to finance SMEs, ordered PBoC to cut RRR for small and medium-sized banks, and reinforced the central bank's support for bond financing, too. In addition, the State Council guided the central bank and financial institutions to issue extra-low-interest loans worth RMB 300 billion to support self-employed businesses, and ordered policy banks to earmark RMB 350 billion special credit quota for loans to small and medium-sized enterprises (SMEs) at preferential rates. To further fuel liquidity into the markets the central bank announced decrease in RRR for small and medium banks by 5 basis points and released RMB 400 billion, and also announced cut from 0.72% to 0.35% in the excess deposit reserve interest rate of financial institutions, deposited in the central bank.[13]

It is analyzed that China's post-COVID-19 monetary policy is expansionary. However, the central bank this time used a different policy mix, as this time liquidity injections and earmarked policy responses play a major financial role leading to lower interest rate level. For example, in the first half-year 2020, the 1 year lending prime rate was reduced by 30 basis points from 4.15% to 3.85%. And this was done with reduction in reverse repo rate (RRR). As of it, since February 2020, the overall RRR cut in March released long-term funding of about RMB 550 billion, followed by two more target RRR reductions by 0.5% points for small and medium banks released about RMB 400 billion cash flow. Furthermore,

[13] Yi Huang, Chen Lin, Pengfei Wang, and Zhiwei Xu, *"Saving China from the coronavirus and economic meltdown: Experience and lessons."* (2020)

with regard to open market functions (repos and reverse repos), the gross liquidity injections reached RMB 5080 billion during February-June 2020. And, in the first half-year 2020 liquidity wroth RMB 2007 was injected into through relending, Municipal Liquidity Facility (MLF), and rediscounting injections. The net liquidity injections through various loan facilities and RRR reductions were RMB 9.4 trillion between April 2018 to January 2020. In contrast, during February-June 2020, the central bank injected only RMB 29 billion into the banking sector. In other words, the central bank adopted “restrained monetary measures”, in consistent with its ongoing steps towards financial stability.

Since the beginning of 2020, the central bank deployed sequential step-by-step approach. In other words, this incremental monetary approach shows that after the short recession; the central bank wants a V-shaped recovery with a return to normal in the second half of 2020 followed by growth acceleration in 2021. Due to restrained monetary policy measures followed by seasonally adjusted month-on-month growth rates of retail sales, fixed asset investment, and industrial production have also recorded rebounds of 0.9%, 6.2% and 29.6% respectively.[14] In this way, the central bank considers that traditional policy slashing interest rates with provision of liquidity not a good solution to virus-hit markets and thus ill-advised. In short, more targeted monetary interventions show more promising results during such “typical recessions” caused by coronavirus crisis like situations. For example, the central bank deployed an earmarked and calculated measures for loans to SMEs. From this angle, the central bank’s many monetary measures target specific industries, avoiding ‘loose monetary policy, appears remarkably relaxed and restrained, in contrast with many other countries’ central banks’ exceptional array of pandemic-controlling monetary instrument.

12 Critical analysis of PBoC’s monetary actions

In the first place, the current economic outcomes seem to be the result of central bank’s unorthodox and earmarked mix of monetary policy tools. Secondly, the central bank adopted a stepwise and incremental monetary approach to tackle the recession-like situation. Thirdly, the prevailing

[14] Ibid.

economic indicators show the PBoC has executed a remarkable variety of policy steps following the coronavirus-induced disruptions. Fourthly, it is also revealed that the central bank acted upon novel policy responses to ensure that commercial banks maintain cash access and credit provision during the uncertain situation. Fifthly, the current monetary loosening though swift but decisive, is in contrasts with the radical and unique monetary measures adopted by other countries' central banks. In brief, the Chinese central bank keeps a vigilant eye on containing the country's debt pile. This may be based on PBoC's assessment that the recovery from the crisis-like situation is "so far, so V-shaped." The coming financial years will indicate the robustness of this restrained monetary judgement and establish that the "swift but decisive policy interventions" were adequately well-deployed to meet these profound economic uncertainties, and exceptional challenges.

13 Monetary responses by the State Bank of Pakistan

The State Bank of Pakistan implemented several monetary measures to minimize the impact of Covid-19 on the economy. In March, 2020, the Monetary Policy Committee (PMC) cut the policy rate by a cumulative 225 basis points. In addition to it, the SBP cut interest rates for its borrowers by 225 basis points, easing pressures from the businesses facing cash flow problems, because the Covid-19 pandemic made the situation uncertain and severely impacted tax collections. SBP also launched a concessional rupee financing scheme (EFS) to inject further cash into the financial markets.

Following are the monetary measures announced by the SBP to mitigate the impact of Covid-19 on economy.

13.1 Refinance Facility for Combating Covid-19 (RFCC)

The SBP earmarked Rs5 billion for the hospitals and medical centers to purchase medical gadgets. Furthermore, the SBP allowed all federal and provincial governments' departments, charitable organizations, manufacturers and commercial importers, and public and private hospitals to make 'Advance Payment Import and Import on Open Account', without any limit, for the import of medical tools and medicines.

13.2 Increasing credit flows to borrowers and easing loan repayment program

Reducing the Capital Conservation Buffer from its existing level of 2.5 % to 1.5% effectively increased the loanable funds available with banks by Rs 800 billion. Furthermore, the central bank allocated about Rs 2.3 billion for individuals to borrow more from commercial banks with relaxation in debt burden ratio requirement for consumer loans from 50% to 60%. The commercial banks were instructed to defer the payment of principal on loans and advances by one year. This response eased financing constrains to facilitating the borrowers. The SBP also relaxed the regulatory criteria for rescheduling of loans within 180 days. In addition, the timeline for classification of “trade bills” was extended from 180 days to 365 days.[15]

13.3 Extension in export performance period for EFS & LTFF

Exporters availing the subsidized credit schemes under Export Finance Scheme (EFS) have been facilitated with extension in shipping goods from 6 months to one year. Exporters who export goods worth US$ 4 million were facilitated with additional credits and loans under the Long Term Financing Facility (LTTF) during the period January, 2020 to September, 2020. Moreover, the requirement of annual projected exports performance for four years to benefit LTFF, was extended by one year.

13.4 Extension in realization of export proceeds and import of goods under advance payment

The SBP instructed the commercial banks to facilitate the exporters by increasing the time period for realization of exports’ proceeds from existing 180 days to 270 days on a case to case basis. Likewise, to encourage the importers the central bank extended the time period for imports of goods into Pakistan against advance payments from existing 120 days to 210 days. Additionally, the exporters were allowed to directly send the shipping documents of their exports’ consignment to foreign

[15] The State Bank of Pakistan’s “*Economy Second Quarterly Report”* for FY20.

buyers without any limit. And for importers the existing limit of US% 10,000 per invoice for advance payment was increased to US$ 25000.[16]

13.5 Electronic submission of foreign exchange-related cases to SBP

To encourage import and export activities, the SBP launched the 'Regulatory Approval System' (RAS) for commercial banks and financial institutions to electronically submit foreign exchange operations and policy-related cases to the Exchange Policy Department (EPD), and Foreign Exchange Operations Department (FEOD).

13.6 Credit to Small and Medium-sized Enterprises (SMEs)

The central bank enhanced the existing regulatory retail limit of Rs 125 million to Rs 180 million to facilitate the small and medium-sized enterprises (SMEs). And encouraged commercial banks to provide additional loans and lending to the businesses and SMEs. Commercial banks were also instructed to reduce the margin call requirement of 30% to 10% vis-à-vis banks' financing.[17]

13.7 Boosting investment in manufacturing via Temporary Economic Refinance Facility (TERF)

To enhance investment in the country, the central bank earmarked Rs 100 billion to provide financing at 7% rate for 10 years for the establishment of new industrial units.

13.8 No charges on IBFT/ATM withdrawals

The SBP instructed the commercial banks to waive all charges on fund transfer through online banking transactions such as SBP's Real Time Gross Settlement System, ATMs, and Inter Bank Fund Transfer (IBFT). In addition, amid the crisis, several general customer facilitation measures were also taken to increase the volume of financial transactions. Better financial services were provided to the customers, investors, importers, and exporters injecting more liquidity into the economy, too.

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[16] Ibid.

[17] Ibid.

14 Critical analysis of SBPs monetary responses

Due to the expansionary monetary policy of SBP, inflationary pressures reached 11.1 percent during the first half of FY20. This inflationary trend was attributed to a number of factors such as coronavirus induced liquidity injections, supply disruptions, growth contractions, and demand compression. On the other hand, a notable improvement in the country's balance of payment situation led to appreciation in Pakistani rupee, is attributed to stability in the short-term inflation outlook. The ease in liquidity was attributed to central bank's higher financing mobilization policies from external and non-bank sources, and spending its cash buffers during FY20. In addition, credit demand from the private sector contracted as industrial activities remained largely subdued. Meanwhile, some vibrancy was observed in export oriented sectors, but their earnings registered a marginal increase in liquidity. Currently, there is galloping inflation due to post-COVID-19 expansionary monetary policy of its central bank. At least double digit industrial and agricultural growth rate is needed to control increasing inflation and unemployment coupled with growth-led structural readjustments and investment and business-friendly policies by the State Bank of Pakistan.

15 Monetary policy spillovers' effects and trilemma

Monetary measures of financial center countries have larger spillover effects on smaller economies. In this way, nature of links with the center economies is the major factor affecting financial conditions in emerging and developing countries. An economy that chases greater exchange rate stability and financial openness has a stronger link with the center economies.

The integrated nature of the financial system has been severely disrupted by the turmoil in emerging market bond markets and currency markets in the wake of Covid-19; leading to an unconventional monetary policy implementation by the Federal Reserve. In this way, policymakers in emerging market economies perceive an increasing economic vulnerability to the whims of the global financial system. Countries following a variety of exchange regimes all witnessed challenges in insulating their economies in the most recent turbulent episode. This has led to grand economic ramifications about the continued relevance of the ‘monetary trilemma’.

Occurrence of hypothesis of the monetary trilemma, in the open economy management system, has been viewed as a trade-off between the choices of financial openness, exchange rate stability, and monetary autonomy. This hypothesis and its extension in recent turbulent time suggest a continuous trade-off between the three trilemma dimensions, leading to the possible emergence of a fourth policy goal---quadrilemma where international reserves may play a role as buffers.

Likewise, the COVID-19 bear market has considerably impacted the policy trilemma of the countries concerned, with serious economic implications as falling stocks prices. During these financially dwindling scenarios, investor confidence goes down, and investing can be risky.

There are many push factors of a bear market, such as global COVID-19 pandemic, investor fear or uncertainty, irresponsible lending, and disruptions in supply-demand equation, and more.

16 Conclusion

In the aftermath of Covid-19, it is concluded that the economic centers’ monetary policies influence other countries’ national monetary policies, too. And this happens mostly through credit growth, bank leverages, and capital flows, making the types of exchange rate regimes of non-centers irrelevant. In other words, the countries in the periphery are all sensitive to ‘pandemic-induced disruptions’ irrespective of their exchange rate regimes. In this scenario, the ‘trilemma’ reduces to an ‘irreconcilable duo’ of an independent monetary policy and free capital mobility. Consequently, the recent experience of coronavirus-driven monetary measures of many countries may present the ‘irreconcilable duo’ worth considering. Since the outbreak of COVID-19, the Federal Reserve has been trying to inject credit into the banks and financial markets to increase spending so that financial system does not amplify shock to the economy. It also has been taking monetary actions to do what it can to mitigate the permanent damage to the national economy so that when the pandemic goes back, the economy can flourish and grow again supplying goods and services to the demand market. The Central Bank of China also announced that it would implement a “restrained monetary policy package", including easing central bank lending facility, open market operations, central bank discount policy, and standing lending facility to inject sufficient liquidity into the financial markets. The State Bank of Pakistan, too, announced multiple monetary responses to facilitate the general publics' access to financial services, simplified procedural laws for importers and exporters, and allowed banks leeway in booking losses related to the pandemic on their financial statements. The two developed countries, China-U.S. and Pakistan, developing one, were economically moving on well when the pandemic began. Now, the central banks are making required structural reforms in the banking system to rein back inflationary trends, and we may hope for a V-shaped recovery after the uncertain period ends.

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