



**EFFECTIVENESS OF THE BANK LENDING
CHANNEL FOR MONETARY POLICY
TRANSMISSION IN PAKISTAN**

BY

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ABSTRACT

Purpose

Transmission of monetary policy is a process whereby the central bank's decisions pertaining to monetary policies are converted into the objectives eventually desired for changes in real output and inflation (price stability). The literature identifies five channels in the monetary policy transmission mechanism. The money channel also known as interest rate channel, the credit channel, the asset prices channel, the exchange rate channel, and the expectations channel. A country's structure of the financial system and the stage of its economic development impact the way these channels function. Unraveling the role and responsibility of commercial banks in the transmission mechanism is expected to provide valuable insights for determining the effects of monetary policy on the economy. Commercial banks are a vital part of the credit channel. The channel of credit is subdivided into balance sheet channel and the bank lending channel (BLC). Studies undertaken by World Bank and IMF indicate that the developed economies exhibit existence of an effective and strong transmission mechanism as compared to the developing economies. There is mixed evidence on the effectiveness of the transmission mechanism in Pakistan. The research papers have emphasized more elaborate and in-depth coverage by future researchers to unfold the characteristics of the transmission mechanism in Pakistan.

TABLE OF CONTENTS

Acknowledgements	vi
List of Abbreviations	vii
List of Tables	ix
List of Figures	x
Abstract	xiv
<u>Chapter</u> <u>Title</u>	<u>Page</u>
1. INTRODUCTION	1
1.1. Monetary Policy Framework	1
1.1.1. Objectives of Monetary Policy	1
1.1.2. Intermediate Targets	1
1.1.3. Operational targets	2
1.1.4. Operational Tools	3
1.1.5. Policy Rate	4
1.1.6. Open Market Operations	4
1.1.7. Reserve Requirements	4
1.2. Monetary Policy Transmission Mechanism	5
1.3. Problem Statement	5
1.4. Research Questions	5
1.5. Research Objective	6
1.6. Significance of the Study	6
1.7. Limitations of the Study	6
1.8. Organization of the Thesis	6
2. LITERATURE REVIEW	7
2.1. Theory of Monetary Policy Transmission Mechanism	7
2.1.1. The Interest Rate Channel	7
2.1.2. The Credit Channel	9
2.1.2.1. The Bank Lending Channel	9
2.1.2.2. The Balance Sheet Channel	10
2.1.3. Asset Prices Channel	10
2.1.3.1. Equity Prices Channel	11
2.1.3.2. The Exchange Rate Channel	11
2.1.4. The Expectations Channel	11
2.1.5. Major Issues of the Transmission Channels	13
2.2. The Bank Lending Channel – A Historical Perspective	14
2.3. Empirical Literature	15

2.4. North America	15
2.5. South America	16
2.6. Europe	18
2.7. Asia	19
2.8. Critical Review	27
2.9. Hypotheses	27
3. RESEARCH METHODOLOGY	28
3.1. Introduction	28
3.2. Research Design	28
3.3. Data Source	29
3.4. Data Analysis	29
3.5. Modeling Strategy	29
3.6. Theoretical Framework and Modeling	29
4. PRESENTATION ANALYSIS	30
4.1. Introduction	30
4.2. Descriptive Statistics	30
4.3. Pair-wise Correlation	31
4.4. Graphical representation of the series	32
4.5. Econometric Methodology	33
4.5.1. Test for Stationary – Unit Root Test	33
4.5.2. Johansen’s Co-integration Test	33
4.5.3. Long-run relationship	35
4.5.4. The short run dynamics	35
4.5.5. Variance Decomposition	35
4.5.6. Error Correction Mechanism	36
4.5.7. Results of model residual diagnostics test	37
4.5.8. Test of Heteroscedasticity	37
4.5.9. Normality Test	38
4.5.10. Test of Auto-correlation	38
4.5.11. Lag length criteria test	39
4.5.12. Granger Causality Test	39
4.5.13. Test of Impulse Response	41

5. CONCLUSIONS AND POLICY IMPLICATIONS	43
5.1. Conclusion	43
5.2. Policy implications	43
5.3. Directions for further research	43
BIBLIOGRAPHY	44
APPENDICES	
A: Time Series Data	50
B: VECM Estimates	51
C: Variance Decomposition	52