

IMPACT OF MONETARY POLICY ON THE BANKING SECTOR

By

MISA NOOR FAREED

25676

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MBA Thesis

2nd Half-semester Progress Report & Thesis Approval

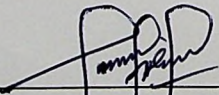
Supervisor-Student Meeting Record

No.	Date	Place of Meeting	Topic Discussed	Signature of Student
5	5.5.15	BUKE	Introduction & Literature review.	Misa
6	12.5.15	BUKE	Research methodology Statement of Problem and hypothesis.	Misa
7	26.5.15	BUKE	Finishing, recommendation and Conclusions.	Misa

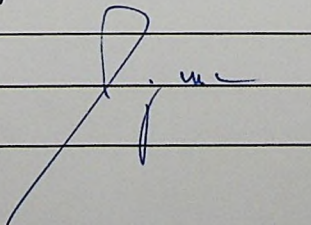
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Candidate's Name: MISA NOOR FAREED Registration No. 25676
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Name: YOUSUF ABID

Head Of Department Signature  Date: 27/10/15

Abstract

Purpose of the Study: Pakistan's banking sector comprises of various banks, which are contributing greatly towards the economy of the country. The State Bank of Pakistan monitors and controls the activities of the banks. As a central bank, the State Bank of Pakistan has to monitor the supply of money in the economy, which can help in ensuring the growth and development of the country. This study focuses on analysing the impact of monetary policy on the banking sector of the country.

Research Method and Sampling: The monetary policy is stated by the Central Bank of the country to regulate the operations of banks. The top 10 commercial banks are analysed in this study to analyse the impact of monetary policy. The independent variables of the study are Cash Reserve Ratio (CRR), Deposit Rate (DR), and Reverse Repo Rate (RRR). The dependent variable of the study is Profitability of Banks. The data for last 10 years (2004 to 2013) is analysed, which shows that there is a strong impact of the monetary policy on the banking sector. Any changes or fluctuations in the CRR, DR, and RRR have an impact on the banks operating in the banking sector.

Finding of the Research: The monetary policy has a strong impact and relationship with the economic growth and stability of Pakistan. The long-run and short-run objectives of monetary policy aim to enhance the economic growth and deal with the various factors that have an impact on the economic stability. The monetary policy can affect the economy in different ways. It influences the interest rate channel, asset price channel, credit channel, and exchange rate channel. The monetary policy is administered by the Central Bank of the country, which aims to regulate the economy. The value and significance of monetary policy in the macroeconomic management focuses on the considerable interest of the policy makers, which influences the stock market performance in developed and developing countries.

Practical Implication of the Research: This study proves that the Cash Reserve Ratio stated by the monetary policy does not have a significant impact on the bank's profitability. The banking sector is evolving and as compared to the past, the banking sector has transformed to achieve economic stability. Banks are the financial institutes that are commonly referred as the lending channels. Previous studies have proved a negative relationship between the tight

monetary policies and the bank loan supply. This is because the banks refuse to make new loan contracts when the old one expires or ends.

Keywords: Cash Reserve Requirement, Reserve Repo Rate, Operation Market Rat

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