



HIGHER INTEREST RATE POLICY IS STABILIZING PAKISTAN'S ECONOMY IN THE LONG RUN

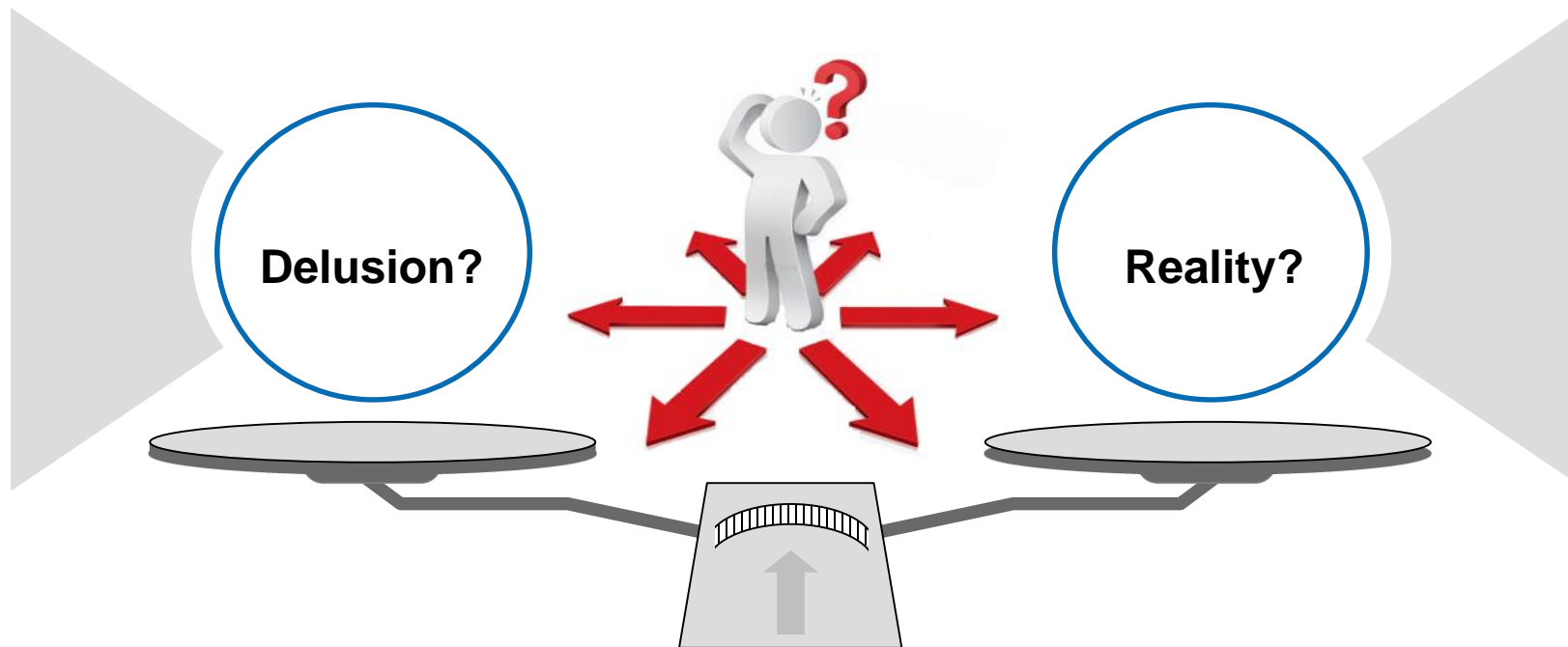
National Finance Olympiad

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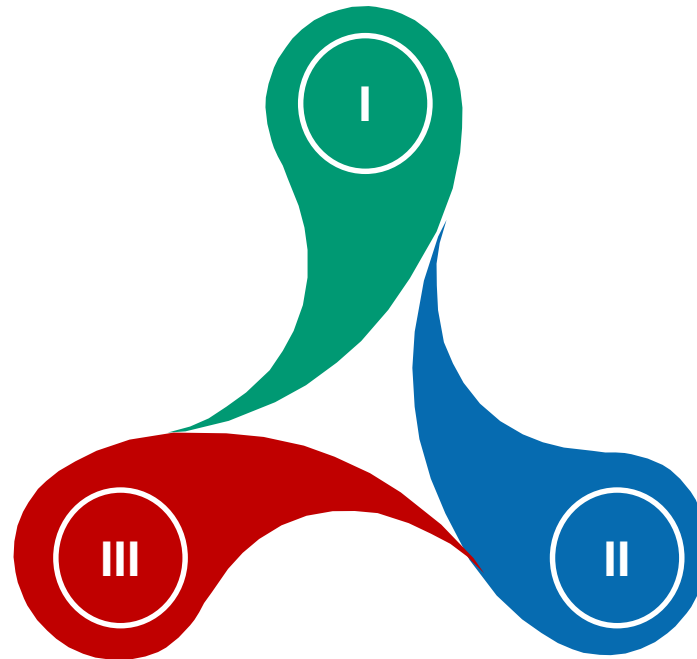
19th December 2019

High interest rate will stabilize Pakistan's economy?



HIGH INTEREST RATE POLICY OBJECTIVES

Control Inflation



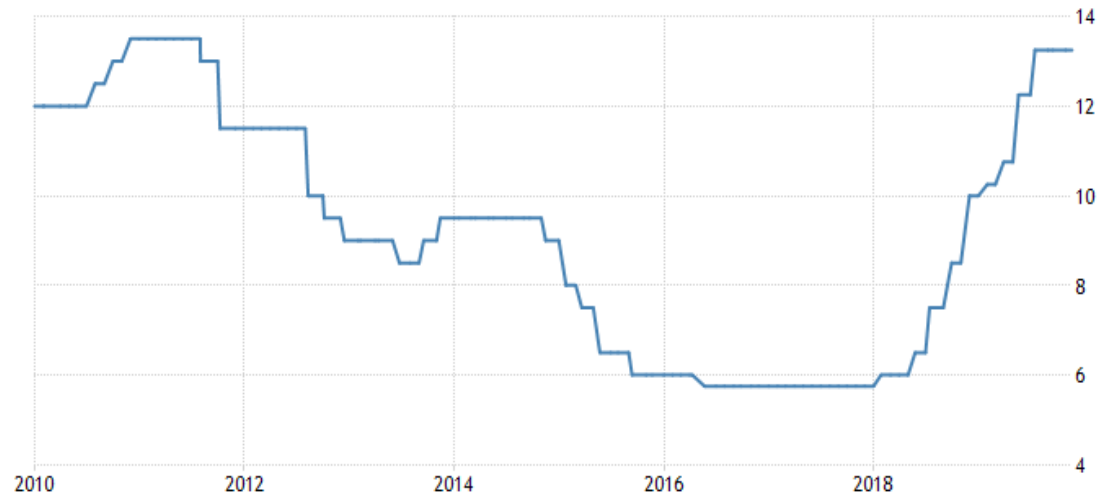
Cool off Economy

Maintain Exchange
Rate Stability

INTEREST & INFLATION HISTORICAL TRENDS IN PAKISTAN



INTEREST RATE TREND



SOURCE: TRADINGECONOMICS.COM | STATE BANK OF PAKISTAN

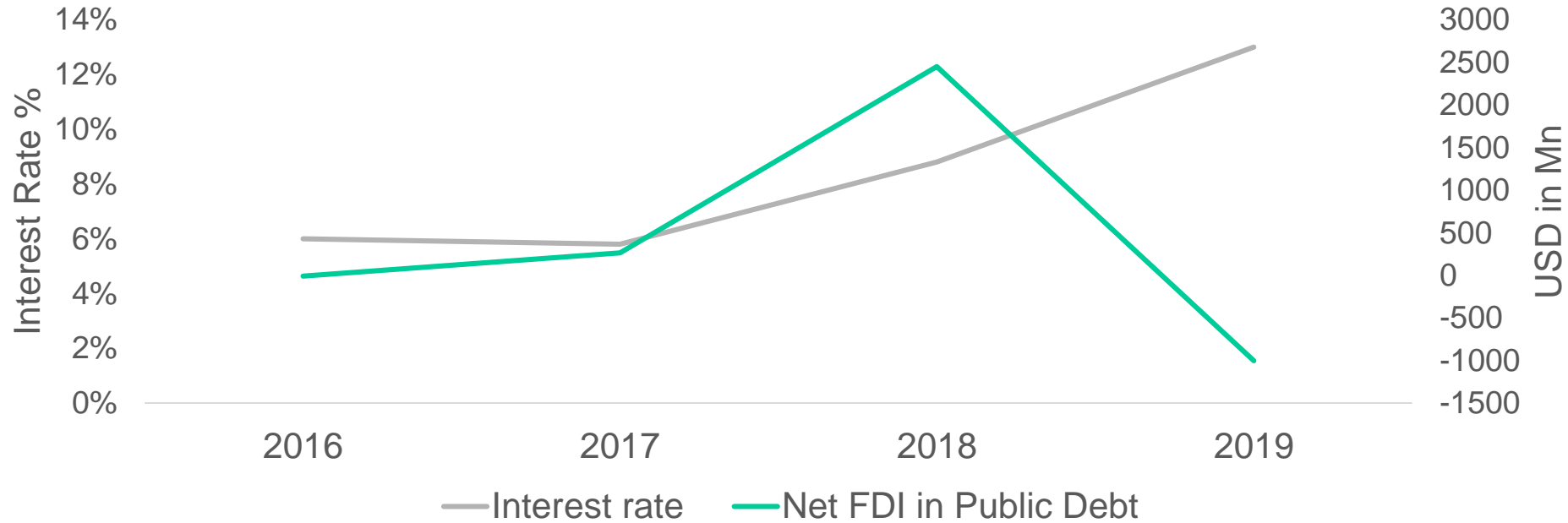
INFLATION TREND



SOURCE: TRADINGECONOMICS.COM | PAKISTAN BUREAU OF STATISTICS

Has interest rate been effective tool to reduce inflationary pressures on economy?

INTEREST RATE IMPACT ON EXCHANGE RATE STABILITY



- Historically, there has been no correlation of rising interest rates with net FDI in Pakistan
- Such nonlinear trends show that the interest rates cannot be solely used to drive foreign investments.

COOLING OFF ECONOMY



- Higher interest rates are used to bring back an overheated economy to its optimal GDP point
- Usage of this tool is irrelevant in case of Pakistan economy owing to the following reasons
 - Pakistan has not yet achieved its optimal GDP point
 - Unemployment rate in Pakistan is high

Parallel to interest rates not serving as an effective monetary policy tool,

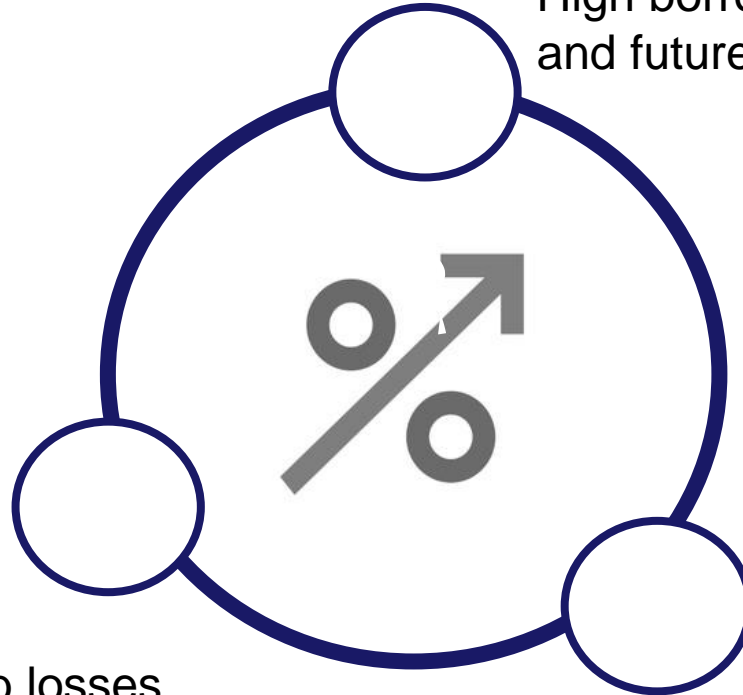
Rising interest rates are detrimental to the economy



DETRIMENTAL EFFECTS OF HIGH INTEREST RATES ON PAKISTAN ECONOMY



High borrowing cost significantly hurt the current and future profitability of leveraged companies



Industrial shutdowns, production cuts and job losses

Interest rate hike discourages companies to undertake new projects and dampens investment sentiments

.....ultimately leading to economic recession!!!



CASE STUDY OF ECONOMY WITH HIGH INTEREST RATES

