Financial Inclusion and Monetary Policy In Pakistan

Commerce

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ABSTRACT

This paper examines the impact of financial inclusion on monetary policy in Pakistan, as financial inclusion is thought to influence aggregate demand and interest rates, contributing to monetary policy success. Financial inclusion leads to effectiveness of monetary policy. Monetary policy has the lag effect, the relationship of financial inclusion and monetary policy is endogenous. Therefore, Approach of generalized method of moments is applied. Comparative analysis is done for all the years based on the empirical examination. Past researches have mainly concentrated on analyzing the financial inclusion effect on other factors, so there arises a gap that need to be filled by conducting research to check the impact of financial inclusion on monetary policy. This study employs the Autoregressive Distributed Lag cointegration technique and bound test. The purpose of this test is to look at the long-term relationship between financial inclusion and monetary policy. Coefficient of error-correction (ECM) term can also be used to confirm long-run and short-run correlations. Study concludes thatevery year monetary policy converges towards equilibrium by 66.9% due to the changes in independent variables.

KEYWORDS: Autoregressive Distributed Lag Model (ARDL), inflation, Pakistan.Financial inclusion, financial exclusion, monetary policy,