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Editor's note

This issue of the SBP Research Bulletin consists of papers called by the SBP on a theme of monetary and fiscal policies coordination especially in the milieu of recent global financial and economic crisis. Although there is a lot of literature on importance of policy coordination to achieve interrelated and often conflicting objectives of maintaining price stability and boosting economic activities, the recent crisis and economic downturn have reinforced the need for coordination between policies. In this backdrop, the Bulletin sought for contributions, particularly in the context of emerging economies on experience and policy advices to tackle with economic crisis and problems in policy coordination.

We received ten papers on different aspects of the theme; four of which were selected for the publication through an internal review process. The authors of the papers also benefited from comments of the reviewers of their papers and revised their manuscripts accordingly.

The first paper included in this issue explores how the monetary and fiscal policies have coordinated with each other in Pakistan. It finds very few instances of such coordination during the last four and a half decades. Relatively higher policy coordination was observed in military regimes which may be one of the reasons of high growth and macroeconomic stability during such periods as argued by the authors. The second paper reviews the consequences of recent global financial crisis on African economies and policy responses thereof. One of the major findings is that economic implications and policy measures against the global crisis are not the same but vary from one African country to another. The paper studies the individual responses and highlights the need for coordinated and consistent efforts to mitigate the risk over the longer term. It is argued that the African countries must urgently prepare their domestic policy responses to enable them to use appropriate fiscal and monetary policies to fight recession induced by the crisis. The next paper is again on the experience of Pakistan regarding the response of monetary sector to fiscal imbalances. The earlier studies in this context on Pakistan generally focus on the impact of fiscal operations on volume of funds available for the private sector. This paper makes an important contribution through quantifying the impact of fiscal imbalances on the cost of funds. It concludes that one percent increase in the budget deficit leads to more than 40 basis points increase in the long-term interest rate in Pakistan that leads to crowding out through increasing the cost of borrowing for private investment. The last paper makes a comparative study on United States, a severely hit economy by the crisis and Australia, a relatively immune economy, and explores the factors that explain credit defaults. It finds that gross domestic product, short-term interest rates and total indebtedness explained default risk in a more meaningful way for US economy compared with Australia.

The four papers combined give a blend of domestic and international experience of relationship between monetary and fiscal policies and how economies behave in crisis situation. However, the theme of this issue of the Bulletin is alive and there is still a need for future research, particularly in the context of emerging market economies on how economic policies should be formulated and implemented in a coherent manner with a competing yet coordinating institutional setup.