

How far do we need a Refined Synchronization between Monetary and Financial Policies in Time of Economic Recovery?

Evidence on how Vital Economic Drivers can Work Again.

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Abstract

The main objective of this research is to question the impact of the parallel and simultaneous effect use of the monetary and financial policies operating together, in one direction, as well as to evaluate the impact of this coordination on the main economic indicators of a country. In some cases, and for several reasons, it is common to witness significant conflict of interests between monetary and financial institutions. This conflict creates several challenges vis-à-vis the efficiency of economic policies. The paper started by clarifying the nature of the relationship between the monetary and financial policies in contemporary economic theory, mainly as regards to the importance of the integration and the coordination between the two policies to stimulate economic growth. It has introduced several components of Egypt's 2016 economic reform program in which the country had managed to overcome an arduous phase after the 2011 political turbulences. The paper showed how the reform design succeeded through stable fiscal and monetary policies to promote growth and improve economic indicators, and to create a successful balance between economic objectives and social requirements, most of all through a delicate model of complementarity between financial and monetary policies. The paper relied on a descriptive and analytical approach in addition to the outcomes of statistical analysis and the exploration of time series. It also explained why Egypt succeeded to be the only country that achieved a positive economic growth during 2020 in the Middle East and North Africa (MENA), according to the IMF and the World Bank and how it succeeded to overcome the external shocks resulting from the worldwide COVID-19 pandemic.

The research methodology consisted of using analytical processes, to link the variables of the financial and monetary policies time series, in order to assess their impact on Gross Domestic Product (GDP) levels and on other macro-economic indicators. The itinerary we took aimed to verify and test the correlations and the impact of a coordinated use of the two policies on the different aggregates related to economic and social variables, and subsequently on economic growth.

The statistical analysis and the data collection undertaken by the researchers concluded that the effective and continuous coordination between the monetary and financial policies had a positive effect on reducing budget deficit and increasing the revenues of tax incomes, along with government spending on social issues. It has also helped to maintain economic growth, and financing the costs of the COVID-19 impacts from solid fiscal and economic revenues. On the

other hand, the paper also shed light on the importance of adopting complementary and comprehensive economic mechanisms, mainly the adoption of inclusive digital transformation system. This would help to internalize the informal sector within the formal economy, and expanding the tax base as well as increase providing credit facilities to support marginal populations and microbusiness without affecting the public deficit and maintaining it within the safety borders.

At the end, the study revealed that the integration between the monetary and financial policies had a positive impact on very a wide range of indicators mainly lowering inflation rates, increasing employment rates. And by using the transmission corridors of monetary policy in coordination with the fiscal policy, the results showed a positive impact on the national currency rate, on the balance of trade, on the Net International Reserve Position that have doubled and tripled in few years from 11 USD Billion in 2011 to 38.3 USD Billion for July 2020, on securing a 25% increase of the exports in 4 years, and mainly on increasing the GDP growth to reach 5.7% in 2019, after a dramatic rate of 2% % following the January 2011 political turbulences.