Between 2016-2018, we observe a somewhat constang KIBOR, which revolves around 7%. At this time, GDP was high and economic agents were borrowing a lot of loans for investment, and they had the finances to pay back their loans. Consequently, banks were feeling confident in lending money which is why KIBOR is low between banks. After 2018 however, KIBOR rose and this was done primarily to reduce interbank lending. The decrease in lending between banks decreased their liquidity causing them to loan out less money, and GDP fell. This co contractionary policy was enacted to control inflation by decreasing the liquidity of banks.

In recent years, we observe an upwards trend in KIBOR and this is not surprising considering that inflation rate of pakistan is around 28%. Increased KIBOR rates would lower interbank lending and would hence help to control inflation.