

## **Abstract**

Using micro data on non-financial listed companies in Pakistan, over the period of 2000-2010, this paper emphasizes over the impact of monetary policy on economic growth through balance sheet channel. At first step, monetary tightening deteriorates the net worth of the firms and leads to cash flow squeeze; of which later affects the economic growth. We find this impact to last for three years over the balance sheets of the firms. Since, industrial sector drives the economic growth; we forecast corporate profitability at the second step. Empirical investigation shows that corporate profitability reverts to its mean at the rate of 25 percent. During Peak, mean reversion is 30 percent while it is 19 percent during trough implying that recession stays relatively longer and economic revival is slow during recessionary phase.

**JEL Classification:** E52, E50, H32, C33, G12

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