

SUMMARY MINUTES OF THE 1st MEETING OF THE ADVISORY COMMITTEE ON THE MONETARY POLICY ¹

September 20, 2014

PRESENT

- Mr. Ashraf Mahmood Wathra Chairman & Governor SBP
- Mirza Qamar Beg Director
- Khawaja Iqbal Hassan Director
- Mr. M. Hidayatullah Director
- Mr. Zafar Masud Director
- Dr. Asad Zaman External Member
- Mr. Riaz Riazuddin Chief Economic Advisor, Monetary Policy, SBP (CEA-MP)
- Dr. Mushtaq A. Khan Chief Economic Advisor, Policy Development, SBP (CEA-PD)
- Mr. Muhammad Ali Malik Director – Financial Markets and Reserve Management, SBP

MONETARY POLICY DECISION – SEPTEMBER 2014.

1. The Committee noted that the economy managed to comeback after years of low performance level and posted 4.1 percent growth rate that was highest since 2008. The Committee observed that ill-fated events of heavy rains and resulting floods have led the economy to some uncertainties which may not be conducive for the continuation of the aforesaid positive trends. The Committee observed that continuation of low availability of energy may also affect GDP growth prospects.

2. Reviewing trends in inflation, the Committee was of the view that downward trend in inflation may face some possible challenges due to flood related short-term food supply disruptions. Members of the Committee showed their concern on the increase in trade balance to USD 4.16 billion in the first two months of FY15. Referring to uncertainties, one of the members highlighted potential difficulties in flow of foreign investments, timely realization of privatization proceeds and delayed issuance of Sukuk bonds.

3. Discussing fiscal sector developments, the Committee observed that reduction in fiscal deficit, contained government borrowing from SBP and improved debt profile of the government are welcoming developments but overall increase in government borrowings, especially through PIBs, is curtailing the already low flow of credit to the private sector. The Committee examined the banks' tendency to invest more in PIBs, driven by higher returns, which could be linked to tight liquidity in the money market.

4. On a query of a member, an executive member explained that tool box or options for monetary intervention are more than policy rate such as changes in SLR and CRR while focused

¹ Constituted by the SBP Board as an interim body, expected to be replaced by statutory Monetary Policy Committee as envisaged under the proposed amendments in the SBP Act, 1956.

macro/micro prudential regulations can also be contemplated. One of the members was of the view that the government is better placed to address implications of heavy issuance of PIBs. A member expressed his concern on the crowding out effect of banks' long term investment in PIBs. He highlighted the need to find unconventional measures to address liquidity requirement while serving financing needs of the government.

5. At the concluding part of the meeting, the members voted for the recommendation on the monetary policy decision. One member voted for a 50 bps increase in policy rate. Referring to uncertainties discussed above, other members supported no change in the policy. Accordingly, the ACMP decided to recommend no change in the policy rate to the Board with a majority vote.

The Committee decided as follows:

DECISION:

The Central Board is recommended to keep the policy rate unchanged at the present level of 10 percent.