

SUMMARY MINUTES OF THE BOARD'S DELIBERATIONS ON THE MONETARY POLICY DECISION

SEPTEMBER 20, 2014

P R E S E N T

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| • Mr. Ashraf Mahmood Wathra | Chairman & Governor SBP |
| • Dr. Waqar Masood Khan | Director/ Secretary Finance |
| • Mirza Qamar Beg | Director |
| • Khawaja Iqbal Hassan | Director |
| • Mr. Mehmood Mandviwalla | Director |
| • Mr. Iskander M. Khan | Director |
| • Mr. M. Hidayatullah | Director |
| • Mr. Zafar Masud | Director |

The Board was apprised of the current economic situation and the recommendations on the policy rate by the Advisory Committee on Monetary Policy (ACMP) that had met just before the Board meeting.

The Board noted that the key considerations of the ACMP's recommendation for keeping the policy rate unchanged were uncertainties and implications for inflation and growth due to ongoing floods in parts of the country. The Board also acknowledged 4.1 percent growth rate of FY14, downward trend in inflation and recent fiscal consolidation.

Referring to recently released data on trade deficit that reflected a sharp increase, one of the members was of the view that risks to balance of payments appear to continue, which coupled with uncertainties attached to fiscal consolidation, warrant some tightening of the monetary policy. Supporting his point of view, he highlighted difficulties in linking fiscal gains with the reform measures taken by the government. He added that apparently fiscal challenges persist, in addition to expectation of increase in inflation and some deceleration in growth due to floods.

Acknowledging that floods may have some implications for inflation and growth, one of the members was of the view that in case there were no floods then some ease in the monetary policy could have been contemplated. He highlighted that the policy rate is being kept unchanged for the last 8 months mainly for the consideration of prudence, despite declining trend in inflation, significant fiscal consolidation and gradual improvements in external sector. Discussing surge in current account deficit for July-Aug, 2014, he explained

that such onetime increase could be due to seasonality and may not constitute a trend to form basis for the monetary policy decision, besides weak linkage of the policy rate with balance of payments in our economy. Expecting some improvement in trade deficit, he highlighted recent change in rupee parity with USD which has more bearing on current account deficit as compared to the policy rate. Summing up his arguments, he supported the recommendation of the ACMP which in his view appears to acknowledge improvements in the economy while giving due weight to the challenges ahead.

Taking into account the above mentioned views, the Board agreed that there is a need to remain cautious and endorsed the recommendation of the ACMP to maintain the policy rate unchanged at the present level of 10 percent.
