

**SUMMARY MINUTES OF THE 2<sup>nd</sup> MEETING OF  
THE ADVISORY COMMITTEE ON MONETARY POLICY <sup>1</sup>  
Held on March 21, 2015**

**MONETARY POLICY DECISION – MARCH 2015.**

**PRESENT**

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| • Mr. Ashraf Mahmood Wathra | Chairman & Governor SBP                    |
| • Khawaja Iqbal Hassan      | Director Central Board                     |
| • Mr. M. Hidayatullah       | Director Central Board                     |
| • Mr. Zafar Masud           | Director Central Board                     |
| • Dr. Asad Zaman            | External Member                            |
| • Dr. Qazi Masood Ahmed     | External Member                            |
| • Mr. Riaz Riazuddin        | Chief Economic Advisor, Monetary Policy    |
| • Dr. Mushtaq A. Khan       | Chief Economic Advisor, Policy Development |
| • Mr. Muhammad Ali Malik    | Director -FMRM                             |

1. The Committee was apprised of the current economic developments including the continued declining trend in inflation leading to further downward revision of SBP's projected inflation for FY15 to 4 – 5 percent. The Committee was also briefed on trends in the external sector where the current account balance has decreased to USD 1.6 billion for the period July-Feb, FY15 as compared to USD 2.5 billion in the comparable period of FY14. Trends in private sector credit and prospects for attaining the economic growth target was also discussed where the low growth in LSM was noted.

2. Discussing low off-take in private sector credit, it was observed that the latest available data is up to March 6, 2015 and does not reflect the impact of the policy rate reduction of January, 2015 which is still to materialise. The Committee was also apprised that government borrowing from SBP has decreased by around Rs. 500 billion but from commercial banks it increased by around Rs. 1 trillion which has repercussions for private sector credit. It was also informed that the deceleration in monetary growth is in line with the declining trend in inflation at 11.6 percent as of March 6, 2015. Reviewing market liquidity conditions, it was noted that on average, the repo rate has remained 32 bps lower than the ceiling of the interest rate corridor from mid-February, 2015 onwards compared to 23 bps in the post November-2014 period.

3. Reviewing the prevailing economic conditions, the Committee discussed various options for recommending a policy rate decision to the SBP Board. Majority of the members were in favour of a moderate decrease in the policy rate to ensure continuity of the monetary stance. The need to monitor emerging developments was agreed upon, especially since a reversal of the low oil prices in international markets cannot be ruled out in addition to expectations of an increase in aggregate demand. It was argued that if the fiscal policy had leant more on revenue generation instead of borrowing, a larger cut in the policy rate could have been considered. These members suggested a 50 bps reduction in the policy rate.

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

4. Members advocating a sharper decrease in the policy rate highlighted the crowding out aspect of government borrowing and emphasized on the need to reduce the real interest rate. They voted for a reduction ranging from 100 to 150 bps.

5. In conclusion, the Committee agreed on recommending a 50 bps cut in the policy rate to the SBP Board with a majority vote of 6 out of 9 members present. There were 2 votes in favour of a 100 bps cut and 1 vote for a 150 bps reduction in the policy rate.

6. The Committee also discussed SBP's proposal for revisiting the interest rate corridor with the objective of strengthening monetary policy transmission. It was agreed to defer the agenda item to the next meeting to facilitate detailed deliberations on the proposal.

The Committee decided as follows:

**RECOMMENDATION:**

- *The ACMP recommends a reduction of 50 bps in the policy rate to the SBP Board.*

## **SUMMARY MINUTES OF THE MEETING OF THE CENTRAL BOARD ON MONETARY POLICY DECISION- MARCH 2015**

**March 21, 2015**

### **PRESENT**

- Mr. Ashraf Mahmood Wathra      Chairman & Governor SBP
- Dr. Waqar Masood Khan      Secretary Finance/Director
- Mr. M. Nawaz Tiwana      Director
- Mr. Mehmood Mandviwalla      Director
- Mr. Iskander M. Khan      Director
- Khawaja Iqbal Hassan      Director
- Mr. M. Hidayatullah      Director
- Mr. Zafar Masud      Director

1. The Board was apprised of the current developments in the economy, followed by the recommendation of the ACMP to reduce the policy rate by 50 bps with a majority vote of 6 out of 9 votes while 2 votes were in favour of reducing the rate by 100 bps and 1 vote for a 150 bps reduction in the policy rate.

2. Most of the members endorsed the ACMP's views for maintaining the present monetary policy stance adjustment in a gradual manner in view of the emerging developments where some uptick in inflation is possible due to a possible reversal in the international oil prices, increase in prices of government administered items as well as an expected increase in aggregate demand.

3. Regarding the low volume of credit to the private sector despite two rounds of reduction in the policy rate, the members noted that the impact may materialise with some lag. It was noted that there are impediments other than the interest rate which hinder economic growth but such impediments should not restrict the use of the policy rate which is a primary tool for impacting inflation.

4. The discussion converged to suggestions for a moderate reduction in the policy rate and the members supported a 50 bps cut. Accordingly, the Board reached a consensus decision to reduce the policy rate by 50 bps to 8.0 percent.