

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

JULY 19, 2014

PRESENT

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

The Board took note of the recent economic developments which were mostly positive and strongly indicative of economic recovery. Improvements such as better balance of payments position and a stable exchange rate, estimated growth of 4.1 percent, lower fiscal deficit, increase in private sector credit and modest monetary expansion were discussed at length. It was acknowledged that because of these developments prevailing market sentiments are quite positive. It was also highlighted that investment expenditure as percentage of GDP has not shown a similar revival. The Board also took note of the contributions of the monetary policy stance in the positive economic developments and for the need to continue to use it for reinforcing positive sentiments.

It was noted that YoY inflation decreased to 8.2 percent in June, 2014 reflecting some volatility during the year while the outlook for FY15 is favourable. The tight market liquidity conditions and high short term interest rates, contributing to exchange rate stability and encouraging stakeholders to invest in long term government securities, were also deliberated upon. The positive developments of lower government borrowings and higher foreign inflows, which contributed to a lower monetary growth of 12.5 percent for FY14 and resulted in a healthier composition of NDA and NFA after several years were also noted and discussed.

The Board deliberated at length on possible risks to the economy. It was of the view that the reforms process undertaken by the Government should continue with vigour and commitment. Deficit reduction, improved tax collections, reduced subsidies and increased public sector spending for development should be the key focus of reforms. The objectives of increased foreign flows, reduced dependence on SBP's borrowing, which will help reduce inflation, bring stability in interest rates and exchange rate and also enable contained monetary expansion, should also be the focus of Government policy.

Some members were of the view that given the positive economic developments which were also acknowledged by an international rating agency, the monetary policy decision should give more consideration to economic growth..

Another member acknowledged the improving economic indicators but highlighted the need for caution. Endorsing the need for caution, other members were of the view that a reduction in the policy rate may not spur growth due to other constraints such as energy, infrastructure and the law and order situation and the trend of economic growth, despite cautious approach on the Monetary Policy in the last three quarters, has been encouraging.

After discussing all aspects and taking into account the various factors, the Board decided to keep the policy rate unchanged at the current level of 10 percent.
