SUMMARY MINUTES OF THE 1st MEETING[1] OF
THE ADVISORY COMMITTEE ON MONETARY POLICY [2]

January 24, 2015

P R E S E N T

- Mr. Ashraf Mahmood Wathra — Chairman & Governor SBP
- Mirza Qamar Beg — Director Central Board
- Mr. M. Hidayatullah — Director Central Board
- Khawaja Iqbal Hassan — 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, SBP (CEA-MP)
- Mr. Muhammad Ali Malik — Director – Financial Markets and Reserve Management, SBP

1. The Committee reviewed the key economic developments since the previous meeting that included declining trend in inflation, improvements in the external sector which could be attributed to reduction in trade deficit due to the ongoing decline in oil prices, and inflows from IMF by virtue of successful completion of 4th and 5th reviews in addition to issuance of Sukuk in the international market. Moderate growth in M2 at 12 percent and its alignment with inflation and growth trends was also noted. The Committee also reviewed sluggishness in private sector credit, reduced budgetary borrowing from SBP, and continued containment of fiscal deficit despite difficulties in revenue collection.

2. Discussing inflation, the Committee noted that prudent Monetary Policy has contributed to the declining trend in inflation that started in 2013 and which has been further accelerated by lower commodity prices. Examining the revised SBP forecast range for inflation for FY15 to 4.5 – 5.5 percent, the Committee observed that although NFNE inflation indicates a less steep decline in comparison with headline inflation, the second round impact of price adjustments is expected to keep inflation low during the year.

3. On the lower flow of credit to the private sector in comparison with the corresponding period of the previous year, it was noted that the decline can be attributed to the delay in the start of the sugar-cane crushing season, almost no demand from the fertilizer industry, and higher credit extended to Government by scheduled banks in comparison with the previous year. Discussing fiscal deficit, it was noted that the previous year's fiscal deficit was inclusive of the one-off disbursement for the energy related circular debt. The Committee discussed the implications of growing imports despite sizable reduction in the oil import bill where it was noted that the

[1] Meetings are numbered on a calendar year basis.

[2] 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.

government has imposed regulatory duties on non-essential items which could facilitate moderating the growth of imports in coming months.

4. Discussing options for recommending a policy rate decision to the Board, the majority view was for reducing the rate by 100 bps. The rationale for this view was based on declining inflationary trends which were broad-based and the improved position of the external sector. Potential benefits of a rate cut were perceived to reflect in the form of improved economic growth prospects, improvement in market liquidity, promotion of investments especially those related to energy, and facilitation of flow of credit to private sector.

5. The members in favour of a lower reduction in the policy rate based their views on the fact that many of the key economic indicators such as the tax to GDP ratio, savings and investments and liquidity conditions had not improved irrespective of the favourable developments in the external sector and declining inflation.

6. In conclusion, the Committee decided to recommend a 100 bps reduction in the policy rate to the Board with a majority vote of 6 out of 9 while 1 vote was for no change in the policy rate and 2 votes for a reduction by 50 bps.

The Committee decided as follows:

RECOMMENDATION:

The Board is recommended to reduce the policy rate by 100 bps to 8.5 percent.

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SUMMARY MINUTES OF THE MEETING OF THE CENTRAL BOARD ON MONETARY POLICY DECISION – JANUARY 2015

January 24, 2015

P R E S E N T

Mr. Ashraf Mahmood Wathra	Chairman & Governor SBP
Dr. Waqar Masood Khan	Secretary Finance
Mirza Qamar Beg	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 100 bps with a majority of 6 out of 9 votes. Of the remaining, 2 votes were in favour of reducing the rate by 50 bps and 1 vote was for no change in the policy rate.

2. Referring to the almost unprecedented decline in international oil prices, it was observed that the current economic conditions provide a unique opportunity for addressing structural deficiencies including those related to the energy sector. Some members were of the view that the current trend in inflation is likely to continue as price reduction of petroleum products announced in January, 2015 and further reduction expected in February, 2015 is still to be reflected in CPI, in addition to the second round of price adjustments. It was also observed that a lower policy rate will also benefit exports. To benefit from conducive economic circumstances, it was suggested to reduce the policy rate by 100 bps.

3. Members inclined to reduce the policy rate by a lower magnitude highlighted the transmission inefficiencies in disseminating benefits of a lower policy rate to the economy and suggested to wait until the positive developments are firmly embedded. Stressing on the need for consistency, it was argued that if the trends have been embedded then the reduction can potentially be more than 100 bps, but as a prudent measure it was suggested to reduce the policy rate by 50 bps. These members were of the view that a reduction of a larger magnitude is not expected to increase credit to the private sector and also highlighted low growth in bank deposits.

4. Some of the members were of the view that positive changes in economic trends have been visible since the start of the fiscal year but the policy rate was kept unchanged to assess whether these trends continue. Another point of view was that the impact of a larger cut in the policy rate would be more noticeable irrespective of the apparent ineffective transmission mechanism.

5. Endorsing the views in favour of reducing the policy rate and staying in line with the recommendation of the ACMP, majority of the members voted for a 100 bps cut in the rate. In view of the challenging operating environment faced by the industry, one of the members voted for a 150 bps cut in the policy rate to boost sentiments and to encourage industrialists to increase the pace of investments.

6. In conclusion, the SBP Central Board decided to reduce the policy rate by 100 bps to 8.5 percent with a majority vote of 6 out of 9, where 2 votes were in favour of a 50 bps reduction and 1 vote for a 150 bps cut in the policy rate.

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