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## **Salim Raza announces cut in key policy rate to 13%, unveils monetary management initiatives**

Syed Salim Raza, Governor State Bank of Pakistan today announced reduction in central bank's key policy rate by 100 basis points to 13 percent which will be effective from August 17<sup>th</sup>, 2009.

Unveiling the July-September 2009 Monetary Policy Statement at a press conference at SBP, Karachi this afternoon, Mr. Raza announced SBP's initiatives in the area of monetary management. He said that SBP is introducing a corridor for the money market overnight repo rate, effective August 17<sup>th</sup>, 2009. While the SBP policy rate will serve as a 'ceiling', the repo rate on the new overnight deposit facility, 300 bps below the SBP policy rate, will provide a binding 'floor,' he added.

"The introduction of this framework will improve liquidity management, enhance effectiveness of market signaling, and foster stability and transparency in the money market operations," he said and added it will also improve transmission of monetary policy signals, strengthening its role in fostering price stability.

SBP Governor also announced that the frequency of monetary policy decisions will be increased from four to six times a year. Henceforth, monetary policy decisions will be announced in the last week of September, November, January, March, May, and July. The January and July policy announcements will be accompanied with a detailed monetary policy statement and a press conference, he said and added that on remaining four occasions the monetary policy decisions will be communicated through a brief press release only. "High frequency of MPS announcement will provide greater clarity in how changing economic conditions are being addressed," he emphasized.

Mr. Raza said an independent monetary policy committee (MPC) is being constituted that will have external experts as members in addition to SBP and SBP Board representatives. The inclusion of external members is designed to ensure that SBP benefits from expertise and independent views concerning monetary policy, he said and added: "This step will bring us in link with best international practices by enhancing the transparency and credibility of monetary policy formulation process." Mr. Raza extensively briefed about current macroeconomic situation. "We have, in a difficult year, seen improvement in key macroeconomic indicators following continued implementation of the macroeconomic stabilization program," he said and added CPI inflation continues to fall, government borrowing from the central bank remains within quarterly limits, and SBP's foreign exchange reserves have increased.

"These positives, in turn, reflect contraction in aggregate demand, much-needed fiscal consolidation, and an improved balance of payments position," SBP Governor said and emphasized that consistent with the gradual strengthening of macro fundamentals, the inter-bank money market is functioning smoothly, the foreign exchange market has been stable within a tight range, and deposit growth in the banking system is picking up. The text of SBP Governor press statement is attached.

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