

### **Fatal misperceptions**

A briefing on the economy, presided over by the State Bank Governor, Dr Reza Baqir, was held in Karachi on 9th July to explain the fiscal and current account situation, exchange rate policy, inflation, IMF programme, the FATF challenge and investment in government bonds by foreigners. According to the briefing, the country's economy is growing on the back of rising consumption whereby savings are declining, resulting in higher CAD and saving-investment gap. The revenue-expenditure gap has fuelled a rise in public debt and the SBP has taken proactive measures to reduce the monthly CAD by depreciating the exchange rate and control inflationary pressures by upward adjustment in the interest rates. However, the Governor stressed the point that a sustainable CAD does not mean a CAD of zero but a CAD that could be financed through normal financial and capital inflows. Deterioration of CAD is the primary reason behind increasing swaps and foreign exchange liabilities that led to a decline in Net International Reserves (NIR).

The timing of the IMF programme is also right because imports are reduced significantly and CAD is almost halved from dollar 2 billion to dollar 1 billion monthly. Responding to a question regarding defending a particular level of the currency, the SBP Chief remarked that he cannot disclose this information as well as the amount used for intervention. However, a fixed exchange rate is not in the country's interest and there is no agreement with the Fund on any level of exchange rate. Free-float of the rupee, where no intervention is allowed, is also not desirable as sometimes sentiments in the market do prevail over fundamentals of the economy. The SBP would, therefore, retain the right and ability to intervene if it senses disorderly market conditions. The SBP is confident about the sources of foreign currency listed in the financing plan which is viable and practical. No lender of the last resort would have given money to Pakistan if the financing plan was not feasible. The Governor also talked about fiscal measures including zero borrowing from the SBP, re-profiling of government debt and rebuilding the yield curve. Open market operations would also assist the government's efforts to refinance government debt for longer maturities.

The briefing on the present state of the economy by the top functionaries of the SBP, in our view, deserves praise. This is so because a number of participants in the briefing may not be fully well-versed with the fundamentals of Economics and, as such, may have been reporting or writing in their publications on the basis of scanty or outdated knowledge on the subject. Their lack of depth is glaringly apparent in the vernacular media that is followed by a vast majority of people in the country and shapes and moulds their perceptions that may be quite contrary to the facts. For instance, the depreciation of the exchange rate is generally considered as something very harmful for the economy as it could lead to higher inflation and greater indebtedness of the country in the local currency while such a step becomes sometimes necessary to build foreign currency reserves and avoid insolvency of the country that are definitely more important objectives to be achieved to prevent de-industrialisation, avoid unemployment and keep the economy in good shape. As such, the analysts need to be aware of the policy options and why certain shift in policies is required in the larger interest of the economy. Similar is the position with the relationship with the IMF which is viewed as a foreign entity that has been allowed to dominate the economic policy framework of the country. The truth, however, is that a country itself approaches the IMF when it is in dire straits and needs its support to stabilize the economy. The IMF assists the country by offering its technical advice and financial support on terms and conditions that are agreed between the Fund and the

member state in negotiations. It is just common sense that it is country's own choice to initiate negotiations with the IMF for a programme, without which the country could face the prospects of a dooms day scenario of default on its obligations.

Hopefully, the participants must have learnt enough to improve their skills. However, the SBP should take some more steps to enhance the usefulness of such an exercise. For instance, the technical jargon be simplified and comprehensible and duration of the meetings be extended to enable the participants to digest the subject fully. Besides, the SBP should make it a regular exercise on a periodical basis to cover more participants who are considered to be opinions makers in the country. Such an increased interaction would help shed more light on the economy and dispel some of the misperceptions that people generally embrace without verifying the facts.

#### RECORDER REPORT