

**Free market jitters**

THE financial markets are extremely alarmed after two full days of an unsupported exchange rate that has seen the open market rate rise to beyond Rs150 and the stock market witness accelerating declines. The adviser to the prime minister on finance, Hafeez Shaikh, met a delegation from the stock market in Karachi, and the same brokers later went to the State Bank for another meeting with the new governor. The brokers' concerns are rudimentary: they want the state to protect them from further losses as the stock market declines. In order to make this case, the brokers have been adept at presenting their vested interests as the interests of the country; they have played this game for many years now.

But the brokers are not the only ones who are agitated over the direction in which matters are headed. Bankers and industry leaders are worried about what new exchange rate regime is being ushered in and what direction interest rates will take, and more broadly, how far the new management of the country's economy intends to go towards letting the market make crucial decisions. They are still busy absorbing the implications of Thursday's exchange rate action, and now a monetary policy announcement next Monday looms before them. Needless to say, for many in business and finance, the weekend will be far from relaxing.

If the financial system is really going to be made more responsive to market conditions, it is now important to ask how far this is going to go. Back in the 1990s, when we had a fiercely independent State Bank governor, who had also been brought in from the IMF, even cut-off yields in T Bill auctions used to be determined by the market. If the exchange rate is to be determined similarly from this point on, how about interest rates, or cut-off yields on government debt? Does it make sense to make only a part of the financial system responsive to market conditions? The new State Bank governor has to ask himself this question when listening to the concerns of the stockbrokers and the exchange companies. In the days to come, more and more segments of the business community, particularly those who have high levels of organised representation of their interests, will step forward with their fears and seek to persuade the finance adviser and the State Bank governor to change their mind, or at least grant some special protections and exemptions to their core interests from the adjustment that lies ahead. In responding to these entreaties, an important signal will be sent to everybody else, and the leadership needs to bear this in mind when considering the requests that the brokers have brought forward. Ideally, Dr Shaikh ought to help the brokers understand that public money cannot be used to bail out private interests.

Editorial