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Editorial

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Change in SBP law

Governor State Bank of Pakistan (SBP) Dr Reza Baqir while addressing the members of the English Speaking Union stated that the SBP law is being amended to contain fiscal deficit financing through printing money. While appreciating the salutary objective behind this move, given that printing money to meet the budget deficit is a highly inflationary policy much used in the past, it needs to be pointed out that successive governments have a very poor record of adhering to laws. The Fiscal Responsibility and Debt Limitation Act 2005, much praised at the time it was passed by the Musharraf-led government, has rarely if ever been implemented.

What is equally disturbing is the intent of the Finance Ministry to violate the Privatisation Commission Ordinance 2000 that recognizes that privatisation proceeds are not revenue but finance and stipulates that 90 percent of these proceeds must be spent on debt retirement and 10 percent on poverty alleviation by publicly stating that the government would make up the revenue shortfall (grossly overstated and therefore unrealistic during negotiations in May 2019 on the International Monetary Fund programme) through higher than budgeted non-tax revenue collections, including the sell-off of the two RLNG plants first announced for sale by the PML-N administration. In other words, laws are not only violated by the government that passes them but also by subsequent governments.

Pakistan Tehrik-i-Insaaf administration has been constrained due to lack of a majority in the Senate to pass laws and for this purpose it has relied on ordinances. During last month a truce of sorts was visible whereby many laws were passed by parliament; however, the recent virulent rhetoric against opposition leaders, particularly relating to Nawaz Sharif's sojourn in London, may well have marred the political climate needed to pass any other legislation in the near future.

Pakistan, a perennial IMF borrower, has time and again accepted the notion of an independent SBP but finance minister after finance minister, has violated this particular standard normal loan condition. Be that as it may, an IMF paper dated 2008 titled 'Central Bank Autonomy, Accountability, and Governance: Conceptual Framework' unambiguously states that: "the IMF supports central bank autonomy and accountability, since it facilitates price and financial sector stability, which are conducive to sustainable economic growth. In the literature, autonomy is sometimes preferred to the frequently-used term independence, as autonomy entails operational freedom, while independence indicates a lack of institutional constraints. A central bank must have clearly defined and prioritised objectives, sufficient authority to achieve these objectives and be autonomous to remain credible". In short, an autonomous SBP will be able to ensure price stability by refusing to print money irresponsibly to assist the government of the day to meet its fiscal deficit, or intervening in the market to shore up an unrealistic exchange rate with negative consequences on its reserve position.

The merit of such a move is not in question; what is actually in question is the present, and future, government's capacity: (i) to reduce current expenditure given the constraints that the finance ministry operates under especially with respect to expenditure while revenue collection continues to remain considerably less than potential; and (ii) our history shows that this particular loan condition is violated even when the country is on an IMF programme, an example being during Ishaq Dar's tenure as the finance minister, which raises questions about its implementability when the country is not on an IMF programme. In other words, a parliamentary consensus is a prerequisite requirement to ensure that this is adhered to for all times to come and even then implementation will remain subject to political concerns of the government at the time.