

Autonomy with accountability

THE current government has effectively built a narrative around the pitfalls of a loose monetary policy now haunting the national economy, although it has generally parked responsibility on political shoulders instead of the actual custodian — the State Bank of Pakistan (SBP).

The accommodative monetary policy of the SBP, since September 2015 until the recent interest rate hikes aimed at artificially driving growth, led to higher consumption, both domestic and imported.

This policy put extra pressure on the exchange rate directly as every additional rupee supplied by the SBP during this period against a given level of dollars constantly built pressure on the exchange rate. It also indirectly widened the trade gap to chronic levels because of the deterioration in exports owing to a loss in competitiveness and bulging imports.

Independence comes with responsibility. The central bank should have full autonomy but justice demands it should be balanced with accountability

In a short span of a year and a half from December 2016 to July 2018, the SBP lost precious foreign exchange reserves to the tune of about \$10 billion for no gain, largely to artificially withhold the exchange rate. Obviously, the decision makers at the SBP are responsible for these \$10bn losses to the nation and should be held accountable.

Unfortunately, the story does not end here. The people of Pakistan are going to pay for the extra \$10-12bn now needed for stabilisation and to meet the financing gap of the economy. This situation could have been avoided had prudent monetary and exchange rate policies been pursued. Overall, this is not a small loss to the nation and works out at a minimum of \$20bn.

This is a straight forward calculation of the loss, which does not yet include the increase in debt burden that is now accruing as the misalignment in the exchange rate is to be corrected, the inevitable increase in inflation as a result, and the loss in GDP growth in the years to come.

All these are the minimum repercussions of the SBP's bad policies, for which the entire nation has to suffer as the government makes an effort to stabilise and bring the economy back on track.

Given that such huge losses have been inflicted on the nation by the SBP's reckless monetary and exchange rate policies, it is genuinely warranted, and should not be hard for the government to fix responsibilities and hold accountable past and present decision makers at the central bank. There is no guarantee that going forward they will do their best.

At the very least there should not be an impression of immunity to the decision makers to do whatever they want no matter that it ends up costing billions of dollars and inflicting misery on more than 200 million people without any scrutiny, implication and accountability.

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Accountability of 'politicians only' may not do the job as at the end of the day they rely on so-called professionals in institutions that either they themselves appoint or who are appointed by their appointees to perform key functions without running suitability checks to ensure the right people have been assigned the right jobs. It goes without saying that by nature these are specialised jobs.

The result of a dental surgeon, although a specialist in its own field, assigned to do a heart surgery, is not difficult to forecast. Running a simple check on the profiles of the professionals and the entire decision making chain at the SBP from top to bottom, in terms of relevance of their specialisation and demonstrated research excellence in monetary and exchange rate policies, should make this current economic mess no surprise.

If corrupt people harmed the country by taking billions of dollars out of the country, these so-called professionals did no less harm. It is time for the government to first hold accountable and fix responsibility for the very explicit and undeniably huge damage done, and then bring in the right people in the right places.

These experts should have full independence to make transparent decisions and also be fully accountable for the outcome of their policy judgments.

The government also needs to remember that its failure or ignorance on this count would be no different from its previous counterparts in encouraging and accepting incidence of huge economic woes caused by irrelevant, incompetent, unconstrained and unaccountable professionals in apex institutions.

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