[**SBP autonomy**](https://www.dawn.com/news/1673954/sbp-autonomy)

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THE opposition says it will give IMF sway over the State Bank of Pakistan. The government calls it a key [bill](https://www.dawn.com/news/1672028) to enhance SBP efficacy. Who’s right? Globally, the majority view is that central banks must be free of government control but must coordinate their work with them. Since bad monetary and exchange rate policies can cause far more and quicker damage than fiscal profligacy, they reside safer with a free central bank focused mainly on inflation.

The pendulum has swung back recently given the ills of this sole focus, eg during crises like Covid-19 when many central banks targeted growth too. Also, since inflation is caused by not only monetary issues but also external shocks, devaluation and supply shortages, the perils of a monetary policy that is too strict have become clear. But these trends have only pushed the need for a central bank to itself balance growth and inflation. The logic for its autonomy from executives still holds, though it doesn’t mean autonomy from states. Thus many states make them accountable to parliament for recruitment for their top offices and key policy decisions.

Against this backdrop, some key issues exist in the SBP bill. Since it gives much leeway to SBP top staff, SBP can be free of the executive only if their recruitment decisions don’t lie with it solely. But in this bill, the executive will appoint, fire and reappoint its all-powerful board of governor and non-executive (eminent national economists) directors and to some extent even its deputy governors. Since the bill cuts the formal powers of the executive over SBP in some areas, this may create a perverse incentive for it to appoint weaklings whom it can still control informally. The option of a second five-year term for governor by the executive may also up this informal sway.

Many states involve the legislature in such decisions. We have a well-honed process based on bipartisan consensus for key autonomous posts like the Election Commission head. A process along these lines and also involving top Pakistani economists at home and abroad would have upped SBP autonomy and efficacy. Giving immunity from prosecution to top SBP posts seems ill-advised as it enhances the lack of accountability of top state functionaries, especially given that a NAB witch-hunt is unlikely against SBP officials due to the nature of their jobs.

**Read:** [*The state and the State Bank's autonomy*](https://www.dawn.com/news/1668655)

Informal wiggle room still gives the executive sway over SBP.

On the policy side, the key change is in the goals. The earlier bill had monetary stability and supporting government economic policies as the two aims in this sequence. The new bill explicitly makes the former the primary and the latter the tertiary aim. But there is no inflation target or type given. In fact, SBP must pursue the executive’s medium-term target. While formally pushing SBP towards inflation targeting, this still gives much leeway to its officials to juggle multiple aims as well as influence to governments, both in terms of it setting the medium-term target and being able to informally influence SBP officials.

These issues are enhanced by the little guidance in the bill on policies for interest or even exchange rate determination, although the latter’s misuse by both PML-N and Musharraf for political purposes are seen as the biggest recent examples of the negative outcomes from a lack of SBP autonomy. Overall, while the lack of a straitjacket is good, a more explicit reference to the dual aims, especially during economic crises where focus on growth is required, would have been better.

The bill ends government borrowing from SBP which currently had to be settled on a quarterly basis. While this proviso was often breached, such borrowing is still seen as an acceptable common option globally even by IMF Wor­k­ing Papers, especi­a­l­ly during crises. The bill also rep­l­aces the institutionalised monetary-fiscal coordination body with individualised interaction between the SBP governor and finance minister, even though institutionalised coordination is seen as useful globally. Also, parliamentary oversight of SBP is weak.

The bill gives no formal sway to IMF over SBP once IMF programmes end but has clauses that on paper push SBP towards IMF’s inflation focus. Yet the informal wiggle room still gives the executive sway over SBP. Once IMF programmes end, chances that the executive exercises its informal powers over SBP to harm the economy will be higher than when the IMF uses formal clauses to do so. It is a dubious process. A controversial entity like IMF in its top-down style used its loan clout to push through a hasty law without public debate and transparency. Thus we have a bill that includes some unnecessary steps and excludes some necessary steps, enhances neither SBP autonomy nor efficacy but may increase informal hidden influences.

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