

# Making the SBP Autonomous or the Governor SBP All Powerful?

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Is the SBP Amendment Act about autonomy of the State Bank of Pakistan? If the objective of SBP Amendment Bill is to make the central bank autonomous, then its Board and committees should be strengthened. Or is it about controlling and managing Pakistan to stop it from pursuing its strategic goals, ensuring the country continues to service its debts at the expense of growth and wellbeing of its population, use Pakistan's economy to spillover benefits to citizens of countries that control voting shares in the International Monetary Fund (IMF) and the World Bank (WB)?

If one person has to achieve all these objectives, it necessitates arrogating the powers vested in the SBP Board and other committees to the Governor, pay him a lucrative salary and make him unaccountable. This is exactly what has happened as the SBP board has been made irrelevant, Monetary and Finance Coordination Committee abolished and the powers transferred to one person i.e. the Governor and his chosen deputies who report to him. These objectives have been pursued in the State Bank of Pakistan (SBP) Amendment Bill which has been approved by the cabinet and the parliament, with the active and passive support of head of state and government institutions in Pakistan. In this article I will discuss whether there is merit in the argument that the SBP Amendment Bill is making the SBP autonomous and throw light on the possible hidden agendas.

## Has the SBP become Autonomous?

The argument that the SBP Amendment Act is making the SBP autonomous would hold ground if the SBP was moving out of the control of the Government of Pakistan and conducting itself independently. But Section 46-B (8) states that the Government has to consult the SBP for any legislation related with the SBP, who will convey its decision after consulting the IMF. Since 16.75 % voting shares of the IMF are owned by the US, the SBP will get subordinated not only to the IMF but to the US government as well.

## Impact on Indebtedness, Savings and Financial Discipline

The new SBP Act envisages no rollover of public debt by the GOP. This means that if the Federal Board of Revenue is unable to meet its revenue targets, GOP will have to borrow money to pay its debts, which will increase the markup and the debt/GDP ratio further. The debt/GDP ratio is already 110%, which is much higher than the 60% allowed in the Fiscal Responsibility Law.

Section 9C stops the Government of Pakistan from borrowing from the SBP, stating that direct borrowing from the SBP hinders savings, while government borrowing from commercial banks promotes savings. And that government borrowing from the SBP restores financial discipline. So let us examine both these arguments. First, I take the argument about government borrowing from commercial banks, rather than the SBP. In view of Section 4A (b) the Bank shall request the Federal Government

to remedy a deficit in the Financial Statement of the Bank and (c) states that the Federal Government shall within a period not exceeding thirty days provide the said amount. How can the relationship between the Government and the SBP be unidirectional, with the Federal Government coming to the rescue of the Bank, but the Bank refusing to provide money to the Federal Government when it needs it?

Second, the argument that government borrowing from commercial banks will promote savings is erroneous. First because government borrowing from commercial banks will crowd out private borrowings. In the past commercial banks in Pakistan have been quite content to invest in government securities, and therefore uninterested to increase credit supply to the private sector. Third, Pakistani commercial banks collapse, discussed later in this article, and replacement by foreign banks will mean that this source of borrowing will not be available to the Government of Pakistan. Fourth, we are being told that SBP's autonomy will not have any consequences on government revenue available for defense. But this is just the opposite of what is stated in the proposed SBP Act, which clearly states that the first priority will be debt servicing. If after meeting debt servicing needs, money is available, it will be made available for defense and development. Moreover, Government borrowing from commercial banks at a higher rate than from the SBP will increase government indebtedness, with very serious consequences for

government expenditures related with defense and development. Since the first priority of the SBP will be debt servicing and whatever is left can be used for defense and development. But increased indebtedness will mean that nothing will be left for defense and development. And history tells us that many states were unable to pay the soldiers' salaries, as a result of making their central banks autonomous, leading to dismemberment of these states.

Fifth, let us examine the argument related to financial discipline. No one can deny financial mismanagement that successive Governments of Pakistan have been indulging in. But has increased exposure to the IMF since the 1990s improved financial discipline? Increased borrowing from the World Bank (WB) and the IMF started in the 1990s, with the ushering in of democratic governments in Pakistan. This led to greater exposure to these institutions. Since then the SBP has had Governors and other staff drawn from the WB and the IMF. What has been the impact of this on financial discipline in the SBP which has been managed by the twin institutions for the last three decades?

First, there has been a big change in the HR management, salaries, perks and privileges of those working for the SBP. Second, employees of Federal Reserve and foreign nationals have been employed by the SBP. Third, top management positions i.e. Executive Directors and Directors have increased manifold over the last thirty years, i.e. ED from 4 to 18, with salary more than Rupees 3 million per month. While the number of directors has increased from 14 to 30 with salaries around Rupees 2 million or more along with medical facility, club membership and other benefits. Annual salary raises are as high as Rupees 300,000 to 400,000. Moreover, plundering of public money is being done further through declining Leave Preparatory to Retirement and paying double salary for the last six months for hardly any service to the Bank.

Although IMF is very stringent and if you want to describe the major thrust of its policies in one word it is 'austerity'. But not so when the beneficiaries are US, UK citizens or those working for promoting the interests of the Empire. Many economists have pointed out these double standards in the IMF narrative, but you have to experience it yourself to believe it. And compare it with the decision of the present government to stop pensions in Khyber PukhtoonKhawa (KPK) and you know what I am talking about.

### **Controlling Inflation Only and Not the Growth Rate**

The SBP Amendment Act states that the SBP will now be abdicating its role of promoting and maintaining the growth rate and will concentrate on controlling inflation only. So let us look at how the SBP has been controlling inflation in the past? The way the SBP has tried to control inflation for the last 30 years has worsened the situation through monetary tightening, resulting in increase in inflation, decline in investments, output and employment. Since increase in prices in Pakistan are mainly on account of cost push inflation due to increase in prices of oil, industrial raw material and capital goods due to devaluations, inflation is not due to demand pull factors, but is a cost push phenomenon in Pakistan. But the SBP has been trying to fight cost push inflation through applying demand pull strategy since the 1990s, i.e. through increasing the lending rate. I have been pointing this since the 1990s, as this has resulted in worsening the situation as high interest rates increase the cost of production and prices. This results in further increase in inflation, decline in output, employment and business profits worsening the recession. But my objections have fallen on deaf ears. Why have my objections fallen on deaf ears? The reason is that increase in policy rates in Pakistan are beneficial to citizens of countries that control voting shares in the IFIs. The policy rates in these

countries are very low or zero, high rates enable the public in these countries to earn lucrative rates in Pakistan.

### **Demolishing Institutions and Strategic Goals**

The Act forbids the GOP from providing guarantees for short term relief to commercial banks facing financial distress, thus paving the way for total collapse of Pakistan's financial sector and its replacement by foreign banks. Where from will Pakistan meet its industrial, strategic and defense needs, expenditures related with China Pakistan Economic Corridor (CPEC), Pakistan's greater integration with regional countries, especially since there is so much antagonism in the west to CPEC and Pakistan's integration to the region? The SBP is abdicating itself from Pakistan's needs and requirements. Pakistani commercial banks collapse and replacement by foreign banks will create a vacuum for the supply of money for defense, strategic and industrial needs.

And Section 46 B (6) states that the SBP can share confidential information with any international public and non-public authority and organization. This is very dangerous and jeopardizes the security of Pakistan. No sovereign country would allow and pay such a hefty package to someone who passes its sensitive information to outside powers. Acceptance of this section amounts to accepting the fact that Pakistan is not a country any more, but a colonial territory run by a Viceroy.

### **Arrogating Powers in the Office of the Governor SBP**

Governor SBP will be appointed by the President of Pakistan for a period of 5 years, extended for another 5 years, instead of the present 3-year tenure. The SBP Amendment Act draft that was released in March 2021 stated that the salary of the Governor will be Rupees one crore and thirty lakhs plus benefits. And the benefits include house rent, 24 hour

security, electricity and gas, two cars with petrol, club membership, 75 % of children's educational expenses, travel, etc. Roughly we calculated the benefits at Rupees 20 lakhs, but later found out that just the membership of Islamabad club is Rupees 17 lakhs, so our rounding off the benefits to Rupees 20 lakhs is greatly underestimated. But even the under estimated amount of Rupees one crore fifty lakhs generated a lot of concerns. So when the SBP Amendment Act was presented in the Senate the actual numbers were removed and the salary of the Governor was stated as 'current market rate.' It is very shocking that such a hefty package for Governor SBP has been approved, while the government is depriving KPK retired employees of their pensions.

Misleading the people that the SBP Amendment Bill is about autonomy of the SBP, while actually it is about arrogating the powers of the SBP Board and the committees in the office of the Governor. This has been attempted through Section 9F which envisages the constitution of an Executive Committee comprising of the Governor and Deputy Governors and others making the SBP board null and void. The Executive Committee quorum is two only, which means the Governor and one Deputy Governors can convene the meeting and take all the important decisions, earlier under the purview of the SBP Board. The committee is not answerable to anyone. If the Government wants to do any legislation concerning the SBP, it has to take permission from this Executive Committee.

The office of the Governor is further strengthened by Section 9(4) which states that Governor SBP will be chairman of the SBP board. This entails conflict of interest and is against the directive of the SBP Governor to the Presidents of commercial banks that they should not chair their boards. The conflict of interest becomes obvious with the incorporation of Section 14(A), which states that Governor and Deputy Governors SBP will determine their salaries and perks

and privileges themselves. This involves conflict of interest and is against international best practices.

According to Section 9G the Monetary and Fiscal Policy Coordination Committee has been abolished. In its place the Governor and Finance Minister will maintain informal liaison. This informal liaison cannot be a replacement for the Coordination Committee in view of the tasks and responsibilities of the Coordination Committee that it is trying to replace. It is also an attempt to concentrate power in the office of the Governor SBP.

## **Performance Evaluation and Accountability**

Power corrupts and absolute power corrupts absolutely. After giving such sweeping powers to the Governor SBP, including the power to fix his own salary and evaluate his own performance, it is but obvious that he will get corrupted. Therefore, Section 52A exempts the Governor and the Deputy Governors SBP and the SBP from the laws of the country, as they cannot be challenged in any court if their actions are in good faith. This will encourage corruption, nepotism and illegal actions. And it is very subjective as to who will determine whether the action was in good faith or not.

In spite of drawing such a hefty package, no performance indicators have been mentioned to gauge the performance of the Governor and the Deputy Governors SBP. There is no accountability or penalty for non-performance. The Governor and the Deputy Governors will not be responsible to the president, the prime minister, the cabinet or the parliament. The Act specifically mentions that FIA and NAB will have no jurisdiction over them. According to Section 39 the SBP will be answerable to the parliament, but not the Governor SBP. It is not possible that you pay such a hefty package, confer so many powers and the employee is not answerable or accountable to anyone. It

is quite obvious that he will be reporting to the IMF/USA.

There is no transparency and the audit has become a farce through inclusion of Section 43 (2) which states that the SBP Board which includes Governor SBP will appoint the external auditor. And section (4) states that the external auditor shall report to the audit committee and the SBP board (which includes the Governor SBP) on key matters arising from the audit and in particular on material weaknesses in internal controls relating to the financial reporting process. This makes the whole audit dubious as the Governor SBP appoints the auditor to conduct the audit and report to him.

## **Conclusion**

If the SBP Amendment Act was about making the SBP more autonomous then the SBP board and committees would have been strengthened. But quite the reverse has happened as some of these bodies have been abolished and their powers passed on to the Almighty Governor. The bestowing of tremendous powers, paying such a fantastic package stolen by denying the Pakistani people their food and medicines, making him unaccountable and authorized to receive and pass on Pakistan's sensitive information, shows that he is going to play a pivotal role in what is waiting to happen in Pakistan in the weeks ahead. This shows how vulnerable Pakistan is, with all those enjoying high public offices in Pakistan and living luxurious lifestyles at Pakistan's expense, expected to come and stand by Pakistan to protect its sovereignty and assets. But the fact is that they are brought to power by the same powers that are taking us to the colonial world order. Proves my point made several times earlier that the biggest security threat to Pakistan is its political order. The security threat emanating from the role US and UK play in appointing public office holders in Pakistan is very real with devastating consequences!

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