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## An 'independent' SBP

The SBP's popularly known Independence Act is in the offing and is the subject of much heated debate.

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The debate is on two aspects – the economic and the political. The salient features of the draft act include: (1) focus on price an- 'independent' stability as the primary goal; (2) no lending to the government; (3) no supply of the Ministry of Finance in the decisions of the SBP; (4) immunity for key officials of the SBP from NAB and FIA inquiries.

Independence for the central bank is argued on the ground that a political government aspiring re-election would indulge in a spending spree, especially close to elections, to woo potential voters – roads, bridges, and livelihood support, etc. A look at government expenditures in previous political spans suggests that the theory is, by and large, true. Higher expenditures are typically financed by borrowing from the central bank. The spending spree is inflationary, and this is where the central bank comes in – an independent central bank shall not finance the re-election bid of a political government at the cost of inflation for society at large. The other side of the argument is: why should the control of the economy be vested in the hands of non-elected technocrats.

There can be no two opinions that in a developing country like Pakistan growth cannot take a back seat. It is well established that instruments like hiking up the interest rate may partly check inflation but would also mar growth potential. A developing country needs to strike a balance when the goals of price stability and economic growth conflict. Those who argue that the SBP focus exclusively on price stability should try to figure out what was the per capita of some developed countries when they assigned the exclusive goal of price stability to their central banks – hint: it was certainly way beyond Pakistan's present level of around \$1200.

Just as the proof of the pudding lies in the eating, the effects of independence lie in exercising it. The question is when the SBP is induced to exercise independence and when it happily goes along with the desires of the government.

The pressure to exercise the available independence would be greater when the country is under the IMF program. However, it is worth recalling that Pakistan tends to go by the IMF Conditionality while we are in the IMF program, especially now that disbursements from IMF programs are often contingent upon 'prior actions'. So, independence or otherwise would not make much of a difference while we are in the Fund program because the IMF can have a say by enforcing the loan conditionality.

The catch lies in the situation when the country is not in the IMF program and the SBP is independent. Two scenarios are possible again – first, the government and SBP are on the same page; and second, the two are not on the same page. In the former case, it will be business as usual. In the latter case, the government has to carefully craft its policy if it wants the SBP to toe the government line.

If the SBP refuses to accommodate the liberal spending stance of the government close to elections, it might be seen as crossing the limit. Going the Erdogan way of firing the governor would not be a choice, after the approval of the SBP Act under discussion. What else is possible?

What if trends on social media start appearing criticizing the role of the SBP? Would the SBP manage to sail through? In a recent standoff between the government and the rest, an oblique reference to street power was made. Would an independent central bank be able to stand the street power of a popular political government or even an oblique reference to the potential of using street power?

In a country where even the highest court has been stormed, the scenarios painted above cannot be ruled out, especially when the likes of these have been seen elsewhere.

In 1995, Mugabe as president granted independence to the central bank of Zimbabwe. However, inflation jumped from 20 percent in 1995 to 230 million percent in 2008 – obviously, Zimbabwe's central bank (CB), despite its independence, rather than focusing upon price stability was yielding to the demands of the government. Speculating upon the reasons for such behaviour, Acemoglu and Robinson, write in 'Why Nations Fail', "the governor of Zimbabwe's CB probably knew how his counterpart in Sierra Leone had 'fallen' from the top floor of the CB building when he disagreed with (the Prime Minister) Siaka Stevens. Independent or not, complying with the president's demands was the prudent choice for his personal health, even if not for the health of the economy".

The SBP independence as envisaged is certainly not something to go far. However, given the political economy of international aid and our present standing, if we must embrace the proposed SBP Act in its present form, then the heavens would not fall. Laws are not cast in stone – after all, the infamous 58 2(b) is history.

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