

ACCOUNTABILITY TOOLS

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Parliament Reports: The reports on the state of the Pakistan's economy provided by the State Bank to the Parliament are an important contribution in an assessment of the performance of the central bank. The reports aim to provide a candid and objective review of economic policies. The high level of disclosure, renders SBP's policies more transparent, and encourages people to form an objective view of the monetary and banking policies of the State Bank.

By analyzing the rationale and objectives of SBP policies, and incorporating extensive coverage of real and fiscal developments, the reports help in developing a better public understanding of the interaction between monetary and fiscal policies and their impact on the overall growth of the economy. Moreover, the analysis contained in the reports allows meaningful guidelines to policy managers at SBP as well as in the government. In addition to this, these reports also help in rationalizing market expectations and guiding public perceptions on important economic issues, which consequently, make the implementation of policies much easier.

One other tool, which is used to inform the Parliament and its members about the activities and operations of the State Bank, is through presentations to the various Committees of the Senate and the National Assembly. The question born at the National Assembly also serves as an important vehicle for responding to specific questions and queries about the various aspects of the performance of the State Bank.

The questions/queries so received cover a wide range of issues from the rationale and anticipated results of macro-economic policies to the financial, legal and managerial issues related to the workings of the banking sector. A significant portion of these queries and explanations relate directly to the impact of actions taken or policies in vogue on the life and well being of the common citizens. The fallout on issues such as regularization of contract or daily wage employees in the banking sector, reasons and rationale for closure of bank branches at unviable locations or loans written off by banks, provide a litmus test of SBP's related policies and stance.

As the matters referred are generally urgent in nature and often entail collection of information from within and outside the bank, every effort is made to evaluate all aspects in establishing the authenticity and contents of related reports submitted by the State Bank.

Cabinet: The Governor, State Bank of Pakistan is invited to participate in the Cabinet meetings on Annual Budget, Trade Policy and other economic and financial issues. He also attends the meetings of the National Economic Council headed by the Prime Minister of Pakistan, Export Development Board, Economic Advisory Council and other similar forum.

On these occasions the viewpoint of the Central Bank are presented while the Bank's policies and actions are scrutinized and questioned.

Economic Coordination Committee of the Cabinet (ECC): The ECC is the highest economic policy making body formed by the Cabinet to take decisions pertaining to various economic issues transactions involving government interests and reviews key economic indicators. The ECC normally meets once a week and consists of all the key ministers heading economic ministries. The Governor, State Bank of Pakistan is a member of the ECC, fully participates in the deliberations and reports regularly on major developments pertaining to the SBP to the Committee.

International Financial Institutions (IFIs): Pakistan is currently implementing a three-year Poverty Reduction and Growth Facility (PRGF) program with the International Monetary Fund

(IMF). The Governor of SBP being the Governor of IMF for Pakistan is a signatory along with finance Minister to the agreement with the IMF. As a part of this agreement Pakistan has to meet a number of performance criteria, structural conditionalities and benchmarks. The IMF sends a review mission regularly to monitor the progress and recommends to the Board whether the tranche of funds can be released or not. Pakistan has so far successfully implemented the program and obtained six tranches from the Fund. The main conditionalities being observed are:

1. **Fiscal discipline:** strict criteria for limiting budget deficits;
2. **Public expenditure priorities:** away from subsidies and administration towards ‘neglected fields with high economic returns and the potential to improve income distribution, such as primary health and education, and infrastructure’;
3. **Tax reform** broadening the tax base and cutting marginal tax rates;
4. **Financial liberalization** interest rates should ideally be market determined;
5. **Exchange rates** should be managed to induce rapid growth in non-traditional exports;
6. **Trade liberalization** tariffs not quotas, and declining tariffs to around 10 per cent within 10 years;
7. **Foreign direct investment** no barriers and ‘equality’ with domestic firms;
8. **Privatization** state enterprises should be privatized;
9. **Deregulation** abolition of ‘regulations that impede the entry of new firms or restrict competition’, and establishing ‘such criteria as safety, environmental protection, or prudential supervision of financial institutions’ as the means to justify those which remain;
10. **Property rights** secure rights without excessive costs and available to the informal sector.

Monetary and Fiscal Policies Coordination Board (MFPCB): The instruments of Monetary and Fiscal policies have an important bearing on the overall economic management of a country particularly on saving and investment decisions of the general public. The issue of co-ordination of monetary policy and budgetary policy essentially involves reconciling the objectives of both the policies. The policies supplement each other in achieving national economic goals. In countries like Pakistan where such policies also have to play developmental role as well, their coordination gains all the more importance.

Monetary policy represents a deliberate control of the volume and cost of money in the pursuit of national economic goals of sustained growth, price stability and balance of payments viability. The main task of monetary policy in a developing country is to assist the process of fuller utilization of a country’s productive resources, as far as possible, by channelling credit to productive and priority sectors and discouraging its allocation to non-essential and less desirable sectors. As for fiscal policy, it attempts to achieve several socio-political and economic objectives, through among others, direct investment expenditure and by providing a set of incentives etc. to help realize various development goals.

For achieving the above-mentioned objectives Monetary and Fiscal Policies Coordination Board (MFPCB) was established in Feb-1994. The objective was to maintain coordination between the SBP and federal government on fiscal, monetary and exchange rate policies.

The Board was constituted under SBP Act 1956 section 9(B) with following composition.

Federal Minister for Finance	Chairman
Federal Minister for Commerce or Secretary, Ministry of commerce	Member
Deputy Chairman, Planning Commission	Member
The Governor SBP	Member
Secretary, Finance Division, GOP	Member

The Board is responsible for ensuring consistency among macro targets and to determine, in consultation with the Federal Government, the limits of credit to be extended to the Federal and Provincial Governments and review, on a quarterly basis, Government's borrowings in relation to pre-determined or revised targets. The Bank is required to place before the Board its assessment regarding the impact of economic policies on monetary aggregates and recommendations for fixing safe limits of monetary expansion and Government borrowings.

External Audit: In terms of SBP Act 1956, the accounts of State Bank of Pakistan are required to be audited every year by practicing Chartered Accountancy firms. Two firms of Chartered Accountants audit the financial record and statements of State Bank. These firms are selected from the top five practicing firms in the field and the sub-committee of the Central Board independently approves their appointment. As a matter of prudence and good governance these companies are generally rotated after every three years as against the internationally acceptable benchmarks of five years. The audit firms independently review the financial record and statements and report directly to the Audit Committee of the board on their findings and status as to a true and fair view in conformity with the International Accounting / Auditing Standards. The external auditors also provide an independent view on the Internal Control weaknesses observed during the course of Audit directly to Audit Sub-committee of the Board of Directors. The Accounts are approved first by the Audit Sub-Committee and then presented to the Central Board of Directors for their approval.

Auditor General of Pakistan: State Bank of Pakistan is an autonomous body and falls under the purview of audit by the Auditor General of Pakistan. The Director General Commercial Audit carries out audit of operations of State Bank of Pakistan every year. The auditors carry out a comprehensive audit of the business transactions and submit their report to the Auditor General of Pakistan. The report is discussed in Departmental Audit Committee of the Ministry of Finance and they report serious observations to the Public Accounts Committee for review and action. For the year 2000-2001 no observation on SBP financial statements were reported to the Public Accounts Committee.