

## **State Bank autonomy**

THE State Bank of Pakistan has injected Rs 1.14 trillion into the banking sector.

This act has caught the attention of many economists who are wondering whether the move is solely for whetting the government's ever increasing appetite for loans. They are forced to ask as to what kind of independent monetary policy this is.

In my opinion, the State Bank action flies straight in the face of the recent SBP (Amendment) Bill, 2015 passed by the National Assembly that calls for more autonomy for the State Bank.

Ironically, the said bill was tabled after the opposition members had staged a walk-out protest on the pretext that cabinet members were not taking the house business seriously. Is this a joke or what?

*Aymen Ahmad*

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### **SBP Clarification**

#### **SBP AUTONOMY – RESPONSE TO A LETTER TO EDITOR PUBLISHED IN DAWN**

“This refers to Mr. Aymen Ahmed's letter to Editor published in Dawn dated 21st August 2015 in which he has questioned SBP's injections amounting to Rs1.14 trillion into the banking sector and termed these contrary to central bank independence.

Any prudent central bank, in general, injects liquidity in the financial system to counter monetary contraction caused by different factors and ensure smooth functioning of the payment system. Contrarily, central banks resort to mop-ups in case of excessive monetary expansion. In this perspective, it should be noted that government has retired Rs1.27 trillion to SBP during November 2013 to August 2015. The act of retirement resulted in monetary contraction, which was needed to be counterbalanced by sizeable injections. Hence the obvious need for SBP injections!

The retirement (to SBP) by government has supported the disinflation process during this period, which was reinforced by decline in international oil and commodity prices. This was reflected in sustained decline in core inflation, which excludes the impact of sharp fall in oil prices and volatile food prices. Moreover, the year-on-year headline CPI inflation had already come down to 5.8 percent in October 2014 before the decline in international oil prices started to reflect in domestic prices. Even when the government has borrowed a sizeable amount from commercial banks during this period, it should be noted that government borrowing from central bank is highly inflationary compared with the case of government borrowing from commercial banks.”