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Khurram Husain Published November 18, 2021

The spin ends

FINANCE MINISTER Shaukat Tarin is finding out that it is easier to make promises than to deliver on them. And State Bank Governor Reza Baqir is finding out that in Pakistan it is rarely a good idea to give commitments in writing. Because they're only there until they're not, but the written word endures.

Both gentlemen made a promise to the people of the country, and both will soon have to walk those promises back. Tarin promised that he will renegotiate the IMF programme that his predecessor left behind to reduce the need for painful adjustments, such as raising power tariffs and taxes. Along the way, he has had to backtrack on his (and his government's) promise to not hike power tariffs as a way to address the growing circular debt, to generate revenues without raising taxes, avoid devaluation of the currency (in one televised interview shortly after his appointment he said the rupee is fine around 155, and a few days ago he said it is likely to drop to 165 after the Fund programme), and hikes in interest rates as a tool to combat inflation. He's no fan of the State Bank autonomy bill either.

And today, he has to preside over precisely these steps in order to reckon with the consequences of the very growth that he touted as a success story only a few months ago. Until a few days ago, it was only reports in newspapers, from credible journalists, saying the talks to restart the Fund programme had run into serious difficulties. Since the first official announcement in the closing days of September, that Tarin was headed to Washington, D.C. to restart the talks, he has tried to put a positive spin on how the talks are going. But it hasn't worked. It has been more than two months now and all we have had so far are repeated announcements from him saying the programme is to be finalised "in a few days" or "by next week". But a few days haven't passed and next week still isn't here.

Now finally he spoke on record about the difficulties, and we learn that the government has to not only bring the State Bank autonomy bill to parliament, but see to its passage as well. At the moment, that bill has still not left the law ministry, where it is being amended, after which it has to be approved by the Fund in amended form, after which cabinet approval is needed, followed by tabling it in parliament, and then its passage. Perhaps they can get all this done in a few days, or by next week. But it looks like a long-haul job for now.

If this inflation is due to supply-side factors, why use monetary instruments to fight it?

Alongside this they need a bill to withdraw tax exemptions as well as pass another power tariff hike sometime after February, along with raising more revenue from the petroleum development levy which could well push petrol prices to levels near to where the dollar is standing today (if applied in full). This is the menu of options facing the government now. It was inevitable that the growth spurt had to end, that the stimulus measures had to be unwound, and that a path back to stabilisation and adjustment had to be found. Having delayed that decision, they are now faced with a more stringent stabilisation plan as a result.

The picture is not any prettier for Baqir at the State Bank. Since the start of the year 2021, he has been promising, through the State Bank's monetary policy statements, that interest rates will rise only gradually and in a measured way should the need arise. Now he has to push forward the monetary policy announcement by a week, an emergency step, to announce what is likely to not be a gradual or measured hike in the discount rate. He also took to the airwaves in April to argue that the costs of unwinding the stimulus at that time outweighed the benefits. Since then, he has had to preside over a steep devaluation of the rupee, a marked uptick in the pace of inflation and a sharp fall in the reserves in October. These were the costs of not unwinding the stimulus in time, and the people are left to judge their weight.

In the same televised appearances, he argued that the growth the country was seeing was now on a sustainable footing. Pause here a moment to reflect on the irony of a State Bank governor who is asking for legislation (he was the only voice on the air at the time supporting the autonomy bill) that makes inflation fighting his core mandate, in the same interview singing the praises of a growth spurt that, in reality, was anything but sustainable. To add to the irony, we had his remarks in London telling overseas Pakistanis that devaluation was not such a bad thing after all since the recipients of their remittances could now get more rupees for the pounds that were sent to them. One wonders what might have been next, perhaps an argument that inflation isn't such a bad thing after all?

All through these months the State Bank has argued that the prevalent inflation is the result of 'supply-side pressures', meaning rising prices in international markets or supply bottlenecks at home. Now we see them moving rapidly to use monetary instruments to try and contain inflation, including the impending rate hike, and we are left wondering: if this inflation is due to supply-side factors, why are you using monetary instruments to fight it?

A new line will now emerge. They might argue, for example, that the rupee hasn't fallen. It is the dollar that has risen, against all currencies of the world, and we have no choice but to adapt to this unforeseen situation. But whatever spin they put out as they get busy to shift gears, they are now facing a public so massively sceptical that words won't really matter anymore.

Following clarification/rebuttal was issued to Dawn in response to the article published on November 20, 2021 titled 'The spin ends'.

Apropos the Op-ed titled 'The spin ends' by Khurram Hussain published in Dawn today, it is submitted that while expressing an opinion is a cherished right, it needs to be exercised responsibly, particularly by those who are in a position to influence the views and expectations of the public. Unfortunately, the opinion put forth in this article is biased and could potentially affect the expectations of readers negatively. The article is misleading because it argues against the policy measures taken by SBP without mentioning the economic environment in which decisions were made.

First, it should be emphasized that monetary policy decisions are always made on the basis of an analysis of prevailing economic conditions, as depicted by the data available at the time, and forecasts of economic variables on the basis of best possible assumptions. Deviation of actual developments from such projections is not unusual and can occur as a result of many exogenous factors. This is especially true in the wake of an unprecedented global shock like Covid. During the acute phase of the Covid shock, it was important not to exacerbate risks by adding policy uncertainty. It was for this reason that the Monetary Policy Committee of the State Bank decided to provide forward guidance regarding how its future course of action would be determined. This helped to calm market participants and limit the output losses from the Covid shock.