

## THE STATE BANK OF PAKISTAN (SBP) AMENDMENT ACT 2021

By

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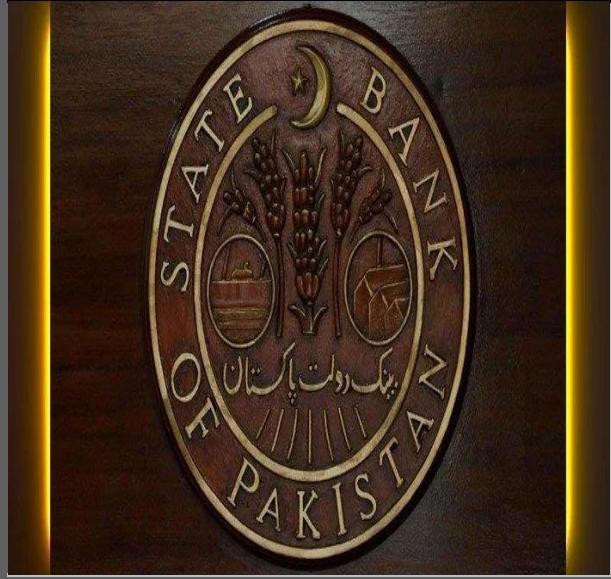
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The State Bank of Pakistan (SBP) Amendment Act 2021 is a continuation of the process to modernize the central bank. The Act defines domestic price stability as the primary objective of the central bank. The secondary objective has been envisaged as financial stability. It is not the first time that a change is being proposed in the SBP Act of 1956. Previous governments have amended the SBP Act of 1956 four times to stay relevant to a changing domestic and external landscape: in 1994, 1997, 2012 and 2015.<sup>1</sup>

The approval of SBP's Amendment Act was among the prior actions for completion of the sixth review and release of a \$1 billion tranche under the \$6 billion Extended Fund Facility (EFF) of the IMF programme. The IMF is the lender of last resort. Its approval ensures access to a host of multilateral and other international financing options at cheaper mark-up. IMF's continuity can remove uncertainty and help Pakistan finance the short term.<sup>2</sup>

<sup>1</sup> "SBP Amendment Bill proposes domestic price stability," The News, December 30, 2021, <https://www.thenews.com.pk/print/921024-sbp-amendment-bill-proposes-domestic-price-stability>

<sup>2</sup> ANI, "IMF defers Pakistan's 6th review to release \$1 billion under fund facility," Business Standard, January 10, 2022, [https://www.business-standard.com/article/international/imf-defers-pakistan-s-6th-review-to-release-1-billion-under-fund-facility-122011000401\\_1.html](https://www.business-standard.com/article/international/imf-defers-pakistan-s-6th-review-to-release-1-billion-under-fund-facility-122011000401_1.html)

The SBP Act introduces several key amendments, including on price stability, monetary policy objectives, and appointment procedures.<sup>3</sup>

- The government will not borrow from the SBP, except for refinancing facilities that the SBP has used to support access to credit in underserved sectors, it will not take any monetary action for the government of Pakistan.
- A new coordination mechanism between the SBP and the government will be made since the Monetary and Fiscal Policies Coordination Board (MFPCB) will cease to be.
- SBP employees, its board, or the Monetary Policy Committee (MPC) cannot be sued, prosecuted, or held accountable for any of their professional actions conducted in good faith.
- The federal government will appoint deputy governors and external members of the MPC. Appointees would have no conflict of interest and will be able to be removed for serious misconduct as determined by a court.
- The governor/SBP will submit an annual report to parliament on the Bank's objectives, the conduct of the monetary policy, the financial system, and half-yearly state of the economy reports.

Furthermore, the Act will have six key purposes:<sup>4</sup>

- to clearly define the objectives of the SBP to improve its accountability,
- to outline the SBP's functions in the line with these objectives,
- to provide the SBP necessary financial resources to help achieve its objectives,
- to strengthen the functional and administrative autonomy of the SBP,
- to increase transparency in the operations of the SBP strengthening its governance,
- to enhance the SBP's accountability by strengthening oversight functions and increasing reporting requirements.

Internationally, many countries have been introducing reforms to safeguard their central banks against any political influences; thus, there is a case to be made in favour of SBP's autonomy. Such autonomy allows freedom to monetary policymakers in determining monetary policy, free from any political interference. The changes proposed in the SBP Amendment Bill 2021 give the SBP more

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<sup>3</sup> Dr Abid Qaiyum Suleri, "Governing the Bank," The News, January 15, 2022, <https://www.thenews.com.pk/print/925349-governing-the-bank>

<sup>4</sup> Ali Ahmed, "Experts react as Senate gives nod to SBP (Amendment) Bill, 2021," Business Recorder, January 28, 2022, <https://www.brecorder.com/news/40150550>

functional and institutional autonomy. Nevertheless, the suitability of SBP autonomy and proposed amendments must be evaluated in a Pakistan-specific context.<sup>5</sup>

By facilitating domestic economic and financial stability, the amendments will help support sustainable growth and avoid repeated booms and busts that have characterised Pakistan's past and led to painful consequences in terms of higher inflation, higher poverty, and lower growth. Moreover, under the current law, there is little performance evaluation. Arguably, greater autonomy will lead to higher accountability and hence, the proposed law will lead to better SBP performance.<sup>6</sup>

Overall, independence of the SBP is a welcome and important development but requires stronger transparency, with improved accountability and oversight mechanisms in place. This would also be in line with international practices, where central banks around the world are autonomous but by no means unaccountable. A crucial consideration would be the grant of de facto autonomy as opposed to the mere de jure autonomy seen in the past. The government and legislature must try their best to make the SBP and its Governor accountable to the democratic system for any proposed autonomy to function effectively.<sup>7</sup>

Institutional autonomy may not prove to be suitable for developing countries, which are still vulnerable to foreign agendas in the context of aid and development assistance. Therefore, in Pakistan's case, SBP's autonomy remains a slippery slope. However, state sovereignty can be reinforced by creating a wide network of autonomous bodies enjoying operational freedom under the policy guidelines evolved through close interaction and coordination. That could help ward off undesirable external influences.<sup>8</sup>

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<sup>5</sup> Ramsha Noshab, "Should the State Bank be autonomous?" Geo News, January 5, 2022, <https://www.geo.tv/latest/391696-should-the-state-bank-be-autonomous>

<sup>6</sup> Riaz Riazuddin, "Our monetary policy goals," Dawn, January 29, 2022, <https://www.dawn.com/news/1672065/our-monetary-policy-goals>

<sup>7</sup> Salman Siddiqui, "SBP Act changes won't cause 'state within state,'" Tribune, January 8, 2022, <https://tribune.com.pk/story/2337702/sbp-act-changes-wont-cause-state-within-state>

<sup>8</sup> Jawaid Bokhari, "Struggle for monetary sovereignty," Dawn, January 17, 2022, <https://www.dawn.com/news/1669918>