Following clarification published by The News on November 22, 2020 entitled 'SBP says committed to transparency in disclosures'

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REBUTTAL

SBP says committed to transparency in disclosures

By our correspondent

KARACHI: The State Bank of Pakistan (SBP) maintains the highest degree of transparency in its disclosures and full independence in its views on the state of the economy, it said on Saturday.

The disclosures have confidence of the public and reports are considered as authentic and credible, the SBP said in a rebuttal to a comment published in The News on November 20.

"State Bank of Pakistan strongly condemns the views expressed by the commentator," the SBP said in a statement.

The SBP rejected allegations against the SBP governor that he was spinning the facts to portray a rosy picture of the economy.

"These allegations are false, baseless and an attempt to make the position of governor controversial," it said. "The maligning of the governor undermines the position of head of an independent and premier institution of the country in the minds of innocent readers of the newspaper, with potentially far-reaching negative consequences for trust in the central bank."

The SBP also rejected the criticism about the progress made by the economy during pre-COVID-19 pandemic period.

"The author argues that the recovery of the economy in the pre-COVID-19 period is not true and that the budget deficit was out of control," it said.

"The fact is the fiscal deficit for the period July-March FY20 was only 3.8 percent of the GDP showing a remarkable improvement in comparison with the fiscal deficit of 5 percent during July-March FY19."

The SBP further said the primary balance during the same period was in surplus of 0.4 percent of GDP, for the first time since FY16. Similarly, assertions about the reduction of the policy rate by 625 basis points during COVID-19 that has been widely admired by all stakeholders, particularly businesses, and its unwarranted comparison with other countries reflect the ignorance."

The State Bank said it has provided a detailed analysis of the developments during FY2020 in its latest annual report on the state of the Pakistan's economy, "which makes it amply clear what happened in the pre and post COVID-19 periods".

"According to the report, following difficult but necessary stabilisation efforts during the first nine months of the fiscal year, Pakistan's economy was well on course for a steady recovery on the eve of the Covid-19 pandemic," it said.

"By February 2020, the unprecedented balance of payments crisis created by the unsustainable macroeconomic policies of previous years had been forcefully addressed through sizable reductions in the twin fiscal and current account deficits. Following a round of monetary tightening during FY19, core inflation remained relatively stable, notwithstanding an uptick in headline inflation due to one-off and seasonal factors. In turn, this hard-won stabilisation was beginning to lead to the revival of economic activity and the restoration of business and consumer confidence."

Following clarification/rebuttal was issued to The News in response to an article published on November 20, 2020 entitled ''The Party has just started'

Apropos the article 'The Party has just started', published in newspaper The News on 20th November 2020, State Bank of Pakistan strongly condemns the views expressed by the commentator, Mr. Mansoor Ahmed, alleging that the Governor SBP is spinning the facts to portray a rosy picture of the economy. These allegations are false, baseless and an attempt to make the position of Governor controversial by the author of the article. The maligning of the Governor undermines the position of head of an independent and premier institution of the country in the minds of innocent readers of the newspaper, with potentially far-reaching negative consequences for trust in the central bank.

Further, SBP also rejects the criticism of the commentator about the progress made by the economy during pre-covid19 pandemic period. His views are contrary to the facts and misleading. The author argues that the recovery of the economy in the pre-covid19 period is not true and that the budget deficit was out of control. The fact is the fiscal deficit for the period July – March, FY20 was only 3.8% of the GDP showing a remarkable improvement in comparison with the fiscal deficit of 5% during July-March, FY19. Moreover, the primary balance during the same period was in surplus of 0.4% of GDP, for the first time since FY16. Similarly, his assertions about the reduction of the policy rate by 625 basis during covid19 that has been widely admired by all stakeholders, particularly businesses, and its unwarranted comparison with other countries reflect the ignorance of the author of basic economic concepts and developments in the country. The author's criticism of foreign portfolio investment should also be seen in the same vein.

Here, it would be pertinent to mention that in its latest Annual Report for FY20 on The State of the Pakistan's economy released a few days ago, SBP has provided a detailed analysis of the developments during FY20, which make it amply clear what happened in the pre and post covid19 periods and we would direct readers towards this important analysis which is available on our website. For the esteemed readers of your newspaper, we are reproducing a paragraph from our press release on the annual report widely published in the newspapers on November 18, 2020.

"According to the report, following difficult but necessary stabilization efforts during the first nine months of the fiscal year, Pakistan's economy was well on course for a steady recovery on the eve of the Covid-19 pandemic. By February 2020, the unprecedented balance of payments crisis created by the unsustainable macroeconomic policies of previous years had been forcefully addressed through sizable reductions in the twin fiscal and current account deficits. Following a round of monetary tightening during FY19, core inflation remained relatively stable, notwithstanding an uptick in headline inflation due to one-off and seasonal factors. In turn, this hard-won stabilization was beginning to lead to the revival of economic activity and the restoration of business and consumer confidence."

The State Bank of Pakistan is proud of the fact that it maintains the highest degree of transparency in its disclosures and full independence in its views on the state of the economy, which have the confidence of the public such that its reports are considered as authentic and credible.

As a matter of principle, SBP considers it inappropriate to comment on economic issues based on weak concepts and information. SBP believes that authentic information based on facts and devoid of misconceptions is a fundamental right of the public.

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COMMENT

The party has just started

By Mansoor Ahmad

LAHORE: The incumbent is perhaps the most government-friendly central bank governor in the past two decades as the former IMF official never gets tired of spinning the economic sins of his inept employers, whose economy-murdering drive has just started getting warmed up.

One example of his 'spin-doctorate' is the fact that despite glaring misgovernance and mishandling of the economy, he is continuously holding the coronavirus pandemic responsible for the economic degradation of the country, conveniently giving his employers a clean chit.

We have had central bank governors in the past that seem to be favoring the government on its policies but not as irrationally as is being witnessed now.

The economic decline is not solely due to COVID-19. The economy was in a tailspin even earlier during the 15 months tenure of this regime. Officially at the time of presentation of last years' budget the economy posted an economic growth of over 3 percent. However, after consolidation it was revealed the growth was only 1.9 percent, 3.9 percent lower than what the previous government achieved in its last year.

In the next fiscal all creditable global agencies like the World Bank, IMF, etc in pre-COVID-19 projections had predicted even lower growth of 2 percent -against official growth of 3 percent a year earlier that later turned out to be around 1.9 percent.

So, the comment that the economy was recovering in pre-virus period is not true. During the entire pre-COVID period large-scale manufacturing was posting consistent decline. The budget deficit was going out of control. The government was accumulating loans from friendly countries and domestic lenders.

COVID-19 did impact the economy for at least three months but the smart handling by the government brought things back to almost normal. The resurgence in economic activities is not because of government policies but due to the resilience of this nation.

We faced two full-fledged wars one in 1965 and the other in 1971, but our growth remained positive after those two costly engagements. We saw northern areas of the country devastated by the earthquake in 2005 but the economy continued marching on. Different governments weathered floods without going into negative growth.

The state Bank of Pakistan boasts it has reduced its policy rate by 6.25 percent in six months to accelerate economic growth. The central bank conveniently ignores the fact that the interest rates were almost the same as in 2017-18 when this government had assumed power. The high interest rates coupled with massive decline in rupee value devastated the business growth. The inflation was not demand-push, but cost-push.

Since the cost of production increased the prices were bound to increase correspondingly. There was ample supply but the demand squeezed as the consumers lacked resources to cope with increasing prices. Their incomes remained stagnant. High interest rates further impacted the prices and reduced the demand. The result was industries started closing and the jobs were axed.

That created further miseries for the working families. Had the central bank acted prudently the industries might have survived on low interest rates. The interest rates in the region including India and Bangladesh wer
than Pakistan.

The central bank was eyeing hot mor
boost foreign exchange reserves. It knev
hot money would evaporate on the slig
sign of chaos or instability in the cou
Since hot money is a short-term invest
foreign fund managers seized the opport
of earning 13.25 percent interest on thei
lar investments in Pakistan's treasury bor
three to six months.

Such high rates were a bonanza and
three times higher than the going rates a
time in the global market. We gathere
highest of $3.5 billion hot money at any
time and paid very high interest rates.

Come COVID-19 and gone was th
money as the central bank was forced tc
the interest rates. If we see in economi
other regions there was not much fluctu
in policy rates after COVID-19 because th
icy rates were also low in line with g
trends.

We were the only economy (may tv
three more) that were operating on
markup. The nation has paid the price c
misadventure and our economy is still li
its wounds.

The central bank has already warnec
the future is also not bright. The GDP gı
this fiscal would be 2 percent or at the hi
2.5 percent. After three years of PTI rul
GDP growth would still be less than ha
GDP growth achieved by the PML-N go
ment in its last year. The GDP growth has
much higher in the first three years c
PML-N compared with the incumbent re
Our economy is in a precarious cone
in the third year of this regime and the
has just started.