

Origins

At the time of Partition, the new state was without a central bank and a proper banking system was almost non-existent. Most of the banks had their head offices in India. Out of 3,496 branches of the scheduled banks, only 631 were situated in Pakistan. To complete the picture of misery, the entire banking structure was dominated by Hindus. With the announcement of the Partition Plan of June 3, 1947, the Hindu started to withdraw their deposits from the banks located in Pakistan. As a result, many banks had to close down their operations.

Since Pakistan had no central bank of its own, it was decided to assign the monetary operations of the new state to the Reserve Bank of India for a period of one year (till September 30, 1948). However, it was soon realized that if this situation continued for too long, the country's interests would be hurt. Accordingly, the State Bank of Pakistan Order was issued on May 12, 1948 and Pakistan (Monetary System and Reserve Bank) Order, 1947 was amended according to which the Reserve Bank of India was to stop functioning in Pakistan on June 30, 1948, with the new central bank taking over on the next day.

At the time of its formation, the State Bank of Pakistan neither had any building for housing its offices nor was there sufficient time for purchase and construction of new premises. Therefore, Victoria Museum Building at the Ingle Road was rented from the Karachi Municipal Corporation and swiftly refurbished. The Bank was inaugurated on July 1, 1948 by Quaid-e-Azam Muhammad Ali Jinnah, who thus observed on the guiding principles of the newly-created central bank:

“I need hardly dilate on the important role that the State Bank will have to play in regulating the economic life of our country. The monetary policy of the bank will have a direct bearing on our trade and commerce, both inside Pakistan as well as with the outside world and it is only to be desired that your policy should encourage maximum production and a free flow of trade.”