

Financial Stability and State Bank of Pakistan

State Bank of Pakistan derives its goal of financial stability from its legal mandate, as specified in the State Bank of Pakistan Act, 1956, "...responsible for securing monetary stability and soundness of the financial system".

Financial stability is defined as a situation in which the function of efficient financial intermediation continues without disruptions despite exertion of internal and external shocks, and financial risks are monitored and managed well such that the possibility of systemic crises is minimized. State Bank of Pakistan sees financial stability as an evolving process, as the financial sector adapts itself to the needs of the economy and financial globalization.

Ensuring efficiency of financial intermediation and provision of access to financial services across all segments of the population is the perfect situation in which economic growth can thrive. The significance of the financial sector is even more crucial given its inter-linkages with the real sector and the general macroeconomic framework. While the financial sector continues to make advancements in response to ongoing implementation of financial sector reforms, SBP in its capacity as the leading regulator of the financial sector strives to play a facilitating role in enhancing its growth. The confidence of economic agents in the financial sector's ability to meet their financial needs in a convenient and secure manner has an important role in maintaining and promoting financial stability. State Bank of Pakistan works closely with the Securities and Exchange Commission of Pakistan (SECP), Pakistan Banks' Association (PBA), the Monopoly Control Authority (MCA), the Banking Ombudsman, and the Federal Government in achieving this goal.

The objectives of monetary and financial stability complement each other given that the financial sector is an important component of the transmission mechanism and implementation of the monetary policy framework in Pakistan. Central banks have the pulse of the economy given their monetary policy functions and as such, they are able to feed into banking policy and regulation the economic dimensions as well as use their industry knowledge to feed into monetary policy making process.

The Financial Stability Report (FSR), an annual publication being initiated from 2007 onwards, is an effort to provide a consolidated assessment of financial stability issues. It attempts to give an independent perspective and commentary on the state of financial stability by providing an objective view on developments in the financial sector, and giving an in-depth analysis of issues of relevance in the financial institutions and markets. The ultimate objective is to suggest appropriate policy-direction for the financial sector as a whole. It also endeavors to promote informed public debate on various aspects of the financial system.

State Bank of Pakistan welcomes feedback and comments on the material contained in the FSR.