

Preface

There is solid empirical evidence that well developed financial markets are correlated with economic development, although there is no agreement on the chain of causation. This follows the theoretical argument that a sound and sophisticated financial system promotes the efficiency of investment and economic growth in an economy by reducing the costs of intermediation and by improving the allocation of risk.

Thus, as a key stakeholder in the development of the financial markets and the economy, the SBP has always closely monitored the functioning of the domestic financial markets. In particular, the SBP has sought to improve coverage of these markets, and to evaluate their impact on the economy. The issue of the new periodic report, the *Financial Markets Review*, is aimed at furthering this effort.

This document, which is to be produced on a quarterly basis, aims to enhance coverage of the domestic financial markets, including the money market, the currency market as well as the domestic capital market. The inaugural report covers developments during FY04 as well as the initial quarter of FY05.