

Pakistan: Financial Sector Assessment 1990-2000



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The team is especially thankful to the participants of Conference on Financial System held on 18th June 2002 in Karachi. Feedback from the participants enabled the team to add new insights and improve the analytical content of this report. However, the team bears the responsibility for all errors and omissions. As a final point, observations made in this report are entirely those of the working team, these do not necessarily represent the views of the conference participants or those of the SBP management.

Preface

Last three decades have witnessed several economic policy changes in Pakistan with far reaching consequences: 1970s faced a large-scale nationalization process encompassing trade, industry and financial sectors; 1980s witnessed a beginning of its reversal in non-financial sector; and last part of 1980s and early 1990s saw a surge in economic measures including trade, fiscal and financial reforms. Since then, a number of measures have been implemented, and would continue to be initiated in future.

With this backdrop, there is a need to take stock of measures undertaken so far; assess their usefulness in terms of development of financial sector; analyze their impact on growth and welfare of the economy; and outline the future direction of reforms. Such a task will be massive and complex; even so a beginning has to be made to trigger this process of assessment. With this objective at the forefront, Dr. Ishrat Husain, Governor, State Bank of Pakistan took the initiative to undertake a comprehensive study, first of its kind by SBP.

The study reviews the process of financial sector reforms since 1990 and focuses on following objectives:

- 1) To highlight the financial structure at the beginning of reform process;
- 2) To make an inventory of financial reform measures during 1990s;
- 3) To evaluate the performance of banking institutions;
- 4) To evaluate the performance of non-bank financial institutions;
- 5) To evaluate the performance of financial markets;
- 6) To analyze the impact of reform measures; and
- 7) To suggest a direction for future reforms.

Outline of the study closely follows above objectives. These objectives also set the nature of discussion in each chapter: *descriptive* (chapters: 1 and 2); *analytical* (chapters: 3, 4 and 5); and *a combination of analysis and synthesis* (chapters: 6 and 7). Although, various alternatives were possible, the outline of the study was chosen for its simplicity. It also enables the reader to connect various types and stages of reforms, almost automatically.

Draft of this study was discussed in the Conference on Financial System organized by the National Institute of Banking and Finance, Islamabad at the Institute of Bankers, Karachi on 18th June 2002. Feedback from the participants have been incorporated, where possible, in this version. Proceedings of the conference have been released separately by the organizer.

It is hoped that this study will serve as the basis for charting the nature and content of future reforms in the financial sector. In addition, it is likely to promote further research not only in the area of financial sector reforms but also the reforms in economic and social sectors.

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