The State of Financial Sector in Pakistan*

Ladies and Gentlemen,

I am grateful to the Institute of Bankers, Pakistan for having provided me this opportunity of sharing some of my thoughts with the bankers and other fellows of the financial sector in the country. First of all, I would like to congratulate those who have passed the examination as well as those who have won prizes and awards. I hope they would be well-advised to discharge their professional responsibilities and they will work hard and honestly. I wish all these young bankers best of luck in their professional careers.

The Institute of Bankers, Pakistan has been playing a key role in enhancing the professional skills in the banking industry in particular and the financial sector in general. The examinations for Diploma, seminars and training sessions organized by the Institute contribute a great deal in achieving this objective. During last one year of my association with the Institute, we have reviewed and satisfied ourselves that the standards set by the Institute for professional examinations are comparable to those in other countries in the region. I extend my deep gratitude to the management of the Institute for maintaining such standard of competence.

I would like to focus today on a topic which has created more heat than light i.e. the current state of the banking sector in Pakistan. What we have achieved so far? How much progress we have made? What have been the shortfalls or weaknesses? What needs to be done in the future?

WHAT HAVE WE ACHIEVED SO FAR?

First, liberalisation of the financial sector has been the major policy agenda of all Governments since the late 1980s. Since then, various reforms were undertaken to enhance efficiency of the financial system to keep pace with the global developments. These reforms were aimed at reducing segmentation of financial markets, introducing competition in the financial sector, strengthening capital base of financial institutions and switching over to indirect, market-based and relatively more efficient monetary and credit policy. Many of the results of liberalization so far have been impressive. This sector which was fully dominated by nationalized commercial banks has been opened up to the private sector and 14 new domestic private commercial banks and 16 private investment banks have been established. In addition, there are 19 foreign commercial banks operating in the country. Two out of the five nationalized commercial banks have been privatized. By December, 2000, the share of nationalized commercial banks in total deposits has shrunk to 46.8 per cent while their share in total loans and advances has also declined to 48.6 per cent. It must, however, be conceded that since 1997, these banks have increased their shares due to more aggressive and pro-active marketing.

Second, pricing and remuneration for most of financial services are now determined by banks on competitive basis. There are no directions from the State Bank of Pakistan. There were subsidized lending rates for priority sectors and the rate paid by the Government on its borrowing through the banking system was artificially pegged at below market rates. Banks and other financial institutions are now free to set their lending and deposits rates. Although this raises a different set of issues for borrowers and depositors, at least the arbitrary control of the State Bank has been eliminated. Government has to pay market based interest rates on debt raised through the banking system.

During last one year, another significant reform was to remove distortions created by higher profit rates on National Savings Instruments. Although I have a great deal of sympathy with the small savers, pensioners and widows who have lost out in this process but let me elaborate as to why these high rates could not be sustained. It is true that nominal interest rates on these instruments have been curtailed but the real rates of returns to NSS depositors have not declined very much. In 1997-98, nominal rate of return on DSCs was 18% per annum, yielding a real return of 10.2%. By December, 2000, the nominal return has been reduced to 14% but the real return of 9.5% is still very high. These high rates have created several problems for the economy. They have put pressure on public finances as the domestic debt servicing costs have risen disproportionately, widening the fiscal deficit. On the other hand, the NSS instruments have diverted deposits from banking sector to non-banking sector and resulted in lower deposit base for the banks. Both the higher borrowing costs of the government and lower deposit base of the banking sectors are not beneficial for long-term growth of the economy.

Third, the sources of long-term financing for investment had gradually dried up in Pakistan, as the Development Financial Institutions such as NDFC, IDBP etc., are no longer able to provide large volumes of credit. Foreign lines of credit are also no longer available. We were faced with a paradoxical situation whereby institutional investors such as Insurance Companies, Benevolent Funds, Pension Funds were desirous of a market based long-term paper in order to avoid the high transactional costs involved in rolling over their investment in short term paper. But the sponsors of investment projects had difficulties in accessing funds except to approach the commercial banks. To fill in this gap, the State Bank has launched the long-term paper of varying maturities. We hope that this Pakistan Investment Bonds would serve as a bench mark for long-term yield curve for Corporate Debt Market.

Now that the market has determined a base yield curve for long-term maturities, banks would also be induced to develop new products with long-term financing options for their corporate clients. Corporations would also be encouraged to launch their own financial instruments like TFCs etc. The end result would be a more conducive environment for private sector financing that would ultimately lead to more investment activity in the economy. The bonds would also contribute towards the development of secondary market as these bonds are not redeemable before maturity but are allowed to be traded freely in the secondary market. Secondary market activity would also be strengthened as and when tradable detachable coupon option is introduced.

Fourth, the nationalized commercial banks and development finance institutions have been facing the increasing quantum of non-performing assets. Some of them are wilful and reflects collusion between the bankers and the borrowers at the expense of the poor savers and honest loan payers, while the others may be due to Government inconsistent policies and inability of our entrepreneurs to adjust against the increasing competition in markets. This has not only negatively affected their balance sheet but also considerably affected the industrial sector of the country.

The quantum of non-performing loans(NPLs) by the end of December, 2000 amounted to around Rs. 282 billion an increase of Rs. 61 billion from Rs. 221 billion as of end December, 1999. These NPLs included principal amount of Rs. 203 billion and mark-up of Rs. 79 billion. On June 30, 1998 the NPLs stood at Rs. 207 billion or 25.7 per cent of the total advances of banks and DFIs in Pakistan.

I would like to take a few minutes to examine this issue and place it in a broader perspective. Press reports use the absolute amounts of NPLs to make comparisons. In fact, the true indicator of quality of assets is the ratio of NPLs to total loans and advances because the quantum of both NPLs as well as total loans change with the passage of time and does not remain static. To highlight only the increase in absolute amounts of NPLs without making any reference to increase in total loans and advances provides a distorted and incomplete picture. This ratio is at present 27 per cent. But the banks have to make provisions against these non performing loans to total loans. As of end-December the banks and DFIs were holding provisions of Rs. 133 billion which covered around 47 per cent of their classified portfolios. Thus the net NPLs/net loan ratio which is a more appropriate measure was about 16 per cent. In simple terms, one out of six loans advanced by Banks and DFIs was not only a bad loan but also not covered by provisions.

I would like to explain the factors responsible for this increase in the quantum of non-performing loans as well as the ratio and the associated provisioning requirements.

(i) The State Bank of Pakistan has introduced and enforced more rigorous standards for classifying loans including additional classification for non-recovery on due date so that the balance sheets of the banks are strengthened and the overall health of the financial sector is improved.

(ii) The valuation methods of collaterals underlying the classified loans have been brought in line with international practices. The banks can now take into account only the minimum realizable value of assets mortgaged or pledged for determining the provisions. The realizable value shall be the value that could currently be obtained by selling the mortgaged/pledged assets in a forced/distressed sale conditions. This mark-to-market valuation is more meaningful than the current system which overstates the value of collaterals pledged by the borrowers and invariably provides an optimistic picture for risk management purposes. The banks have been asked to earmark additional provisions against the revised valuation of collaterals and thus strengthen their balance sheets.

(iii) While the Nationalized Commercial Banks have brought down their non-performing loans from 36.8 per cent of total advances in June, 1998 to 27 per cent in December, 2000, the largest single change has been in the category of specialized banks. Their non-performing loans have risen from Rs. 19.3 billion to Rs.65.2 billion due to a significant change in the basis of reporting. Some of the public sector specialized banks were reporting only default or overdue portion of their non-performing loans instead of total outstanding amount of such loans. This adjustment has resulted in addition of Rs. 45 billion of loans being classified as non-performing loans which were not shown as such in the period prior to September, 2000.

I must confess that this picture of non-performing assets is not very satisfactory and is causing an increase in the spread between deposit and lending rates. The depositors would get much higher returns if this problem is adequately tackled. Such a state of affairs is also causing slow down in industrial activity as a number of industrial units have become sick. Industrial sickness and infected balance sheets of the banks are also creating hindrance in the way of privatization. To tackle this problem**, Corporate & Industrial Restructuring Corporation** (CIRC) has been established through an ordinance promulgated on 22nd of September 2000 with the aim by reviving those sick industrial units which are financially and economically viable. The Corporation has been empowered to take over the non-performing assets of the nationalized commercial banks (NCBs) and development financial institutions (DFIs) exceeding Rs. 30 million and to ultimately liquidate non-performing assets and stuck up loans either by reviving the sick units or disposing of their physical assets. The Corporation has revived and restructured 84 units (carrying Rs.24.8 billion loan outstanding as against Rs. 10.1 billion loan in default) out of 189 sick units considered for revival so far. In this phase, CIRC has included the non-performing assets of UBL which would facilitate the privatization of UBL.

I would now revert to the other achievements in the financial sector.

Fifth, although efforts for privatization of nationalized commercial banks and development financial institutions are under way, the non-performing/defaulting loans continue to affect the operational and financial stability of these institutions. This predicament owing to absence of effective banking legislation, an unsupportive judicial system and to certain extent unprofessional handling of the affairs by the bankers themselves, has ballooned putting to risk the very existence of the financial institutions. Often the legal course open to the bankers for loan recovery enters into protracted litigation spanning over decades. To resolve this long outstanding issue, the government has formed **NAB Conciliation Committee**. To expedite recovery of loans from wilful defaulters under the NAB Ordinance the Committee has to finalize its proceedings within 30 days and make its final recommendations to the Governor, SBP. This mechanism has of course slowed down the process of cash recovery which was accelerated by NAB but it follows a due process in which the borrowers and lenders are provided an opportunity to reach a mutually acceptable settlement and avoid recourse to lengthy litigation. This process has been put in place in response to the demands of the business community who essentially insisted on an arbitrator such as the SBP to intervene and resolve the disputes in regard to defaulted loans.

Sixth, there is almost a consensus that enforcement of financial contracts cannot take place unless the legal and judicial process is strengthened. The banking courts system needs to be revamped and reoriented to facilitate loan recovery more expeditiously. The recovery laws themselves should facilitate the process of mortgage foreclosure and early settlement of banking disputes.

I would like to add further that the complexion of the financial world has completely changed and is continuously changing due to strides in telecommunications, development of new financial instruments, globalization of the domestic financial markets and changes in the international regulatory environment. The situation warrants that all the existing **banking laws** should be reviewed with a view to enable them to provide a supporting environment for the financial institutions to face the challenges of competition, globalization and technology as also to make the supervisory process manageable, effective and efficient.

On the request of the State Bank, the Federal Government constituted Banking Laws Review Commission in April 2000 to survey the legal problems and legislative needs of the financial sector, review all the existing legislation regarding the financial sector and to propose amendments including the drafting of new laws. The Commission has sought suggestions from all concerned through a press note on this subject. After reviewing all these suggestions, the Commission is now in the process of preparing its recommendations for amendments in the banking laws.

Seventh, the State Bank of Pakistan has laid greater emphasis on improving the Corporate governance of the banks. This can be achieved through a well functioning systems of checks and balances enforced through a four-tier structure of governance. The first tier is the management team drawn from professionals of highest integrity and proven competence and track record which can provide the overall leadership and direction. The second tier is effective boards of directors consisting of reputable people of strong calibre and vision who can exercise guidance and oversee the management. Next comes the external auditors who can certify to the strength of processes and internal controls operating within the system. Finally, the regulator or the State Bank of Pakistan comes at the end of this hierarchy of Corporate governance. In almost all cases these four tiers have been put in place.

The banks/NBFIs incorporated in Pakistan have been mandated to get the clearance of the State Bank prior to appointment of their Chairman/Chief Executive and members of the Board. Under the provisions of Banks (Nationalization) Act, 1974 the appointments of Chief Executive of public sector's banks/DFIs have to be made out of a panel of professional bankers maintained by State Bank. The management of public sector banks have already been drawn from private sector and their boards have been re-constituted and appropriate persons of repute from private sector have been inducted.

External auditors play an important role in promoting good governance in the banking sector. In this regard, their professional competence and integrity are of utmost importance. State Bank maintains a Panel of Auditors who can conduct the audit of banks and NBFIs in terms of the Banking Companies Ordinance, 1962. As a part of improving the quality of audit services, we have revised the criteria for selection of auditors for placement on this Panel in consultation with the Institute of Chartered Accountants of Pakistan. SBP has recently notified the revised panel of auditors under the new criteria which were intended to make the selection of auditors more rigorous. State Bank is regularly watching the quality of performance of the external auditors with a view to bring about further improvements.

Eighth, the capacity of the State Bank of Pakistan in supervision and regulations of banks has been upgraded significantly during the last four years and radical improvements have been brought about in the supervisory methodology. In this regard, we have also taken a number of initiatives to follow a risk based supervision approach which is based on internationally recognized **CAMELS framework** for off-site and on-site evaluation of risk inherent in the activities of banks. The initiatives taken to strengthen the supervision and prudential regulations are described below.

(a) To strengthen the capital base of banks and achieve international consistency, we have already moved to the Basle system of defining **minimum capital requirements** for banks. All banks are now required to maintain capital and unencumbered general reserves, the value of which is not less than 8% of the risk weighted assets. Recently, **minimum paid-up capital requirement** for banks have been doubled from the existing Rs. 500m to Rs. 1 billion and this goal has to be achieved by end-December 2002. A banking company which is unable to meet the capital requirement shall stand descheduled and converted into a non-scheduled bank. Similarly, the minimum capital requirement for investment banks and housing finance companies/discount houses has been raised to Rs.500 million and Rs.300 million respectively, to be met by December 2002.

(b) As you all know, the banking supervision is designed to ensure that banks operate in a safe and sound manner. It is traditionally carried out through a combination of both off-site monitoring and on-site inspections. The SBP is carrying out **continuous off-site monitoring** through periodic reports submitted by banks/NBFIs to identify those institutions which reflect a high probability of financial difficulty so that policies and corrective actions can be designed and implemented at once. On the basis of these reports, quarterly off-site surveillance report of each bank and NBFI is generated wherein their performance is evaluated under the CAELS framework which involves analysis of five-group of indicators such as Capital, Asset quality, Earnings, Liquidity and Sensitivity to other risks. Early detection of banking crisis or identification of a problem bank is a prerequisite for an effective banking supervision. Although no system can guarantee non-occurrence of bank failure, a good supervisory system can reduce the probability of such events. Timely identification through relevant indicators facilitates early detection leading to corrective actions.

(c) Timely and **effective enforcement actions** are amongst the key functions of supervision of financial institutions. Recently, this function has been revitalized through implementation of the observations outlined in the on-site inspection reports prepared under the newly introduced CAMELS rating system. SBP's inspection skills have improved with the recruitment of young professionals and training imparted through the Arthur Andersen. The on-site inspection reports received are more specific and focused than before thereby facilitating specific and targeted remedial actions. Based on the ratings allotted to the various financial institutions, enforcement actions are initiated depending on the severity of the ratings. Institutions showing adverse ratings are required to submit time bound action plans.

The enforcement action has been institutionalized with the introduction of a comprehensive problem bank manual and on-site inspection manual. These manuals provide guidance for detailed diagnosis and enforcement actions. Implementation of these manuals has only started recently and will take some time to take full effect.

(d) Globalization of financial and capital markets has created pressure for truly **international accounting standards**, including disclosure requirements. These pressures for change come from users and practitioners of financial statements as well as from regulators and international agencies. We have also adopted the international accounting standards, and the banking companies are required to prepare their financial statements in accordance with these standards effective from year ending 31 December, 1997. Under these revised forms of financial statements it is now mandatory for the banks to report the details of the parties and the amounts of the loans which have been written off during the year. They also have to disclose provisions made for bad and doubtful debts. Compliance with these standards coupled with thorough audit by the external auditors can increase the credibility of financial statements. However, keeping in view the ever-changing nature of the banking business as well as adoption of new accounting standards, the format is being updated to bring about greater transparency and increased disclosure.

(e) To assess the status of compliance by the banks with the **core principles,** all banks engaged authorized audit firms for assessing the status of compliance with core principles prescribed under Basle agreement. The auditors have since submitted their report to the State Bank. The results indicate that majority of the banks are either compliant or largely compliant with most of the core principles. However, some of the banks are lacking in compliance with certain principles and the State Bank is in touch with those banks for achieving the compliant status.

(f) An other important development to improve public disclosure is introduction of credit rating. **Credit rating** is an independent opinion about the credit quality and capacity of an entity to meet its obligation of timely repayment. Credit ratings disclosed to the general public is considered as a measure of transparency and as such it holds immense value for investors, creditors, financial institutions, issuers and regulators alike. Therefore, the entire process of credit rating brings about overall improvement in the financial sector. The importance of credit rating has also been recognized and emphasized by the Supreme Court of Pakistan in its verdict on 'RIBA'. Accordingly, State bank has made credit rating compulsory for all banks and NBFIs from July 2001. However, branches of foreign banks, whose operations at global level are credit rated by Standard and Poor, Moody's and Fitch-IBCA and have minimum credit rating of A3/A- are exempted from credit rating process in Pakistan. In view of this mandatory requirement, Banks/NBFIs listed on the Stock Exchange(s) will be required to disclose their credit rating to the public besides publication of annual reports.

Finally, while all these efforts are primarily focused to ward off the unscrupulous elements from the financial system and strengthen the institutions themselves, it is equally important for others associated with the financial sector to come up with a self imposed regulations/code of conduct for their members to help in building a strong and healthy financial system which shall ultimately be instrumental in the development of economy. We have had very fruitful dialogue with the Pakistan Banks' Association (PBA) and there is a general agreement that the capacity of PBA should be strengthened to enable it to function as a self regulating agency for the banks. We hope to follow this up with specific actions in the future.

In cataloging the above list of initiatives and measures I am by no means, implying that we have attained a stage of nirvana. Nor that we should pat ourselves on the back and become complacent. In this fast changing and dynamic world of financial liberalization, global market integration and private capital flows it would be imprudent on our part if we do not remain ever vigilant and agile. We have to adapt ourselves to the changing requirements of the banking industry and help them in remaining sound and healthy under varying market conditions and unanticipated exogenous shocks — external or internal. Thus, the agenda for future reforms is even more daunting and challenging than whatever modest achievements we have made so far.

WHAT STILL NEEDS TO BE DONE?

First, although, the country has achieved a **more competitive market structure** with the establishment of new private commercial banks, the expanding market share of foreign banks and the privatization of the two nationalised commercial banks, the efficiency of the banking sector has not yet improved. One of such measures of efficiency is the spread (in weighted average term) between the lending rates and deposit rates, this spread has, in fact increased from 2.4 percent in 1989-90 to 7.1 percent in 1999-2000. While deposit rates remained stagnant at around 7-8 percent, the lending rates increased from 10.60 percent in 1989-90 to 14.50 percent in 1999-2000. Real deposit rates were negative for quite some time during this period while real lending rates did not move with the movement in inflation rate. It is also important to note that the deposit and lending rates are not comparable during 1989-90 and 1999-2000 due to larger degree of market imperfections in the earlier period. Increase in lending rates were imminent as banking structure moved away from financial repression caused by high SLR, tap system of treasury bills, credit ceilings and subsidized and directed credit towards a market based interest rate structure built around auction of government securities, low SLR and open market operations. The main factors responsible for stagnancy in deposit rates were increased administrative cost of financial institutions involved in liberalisation process, overstaffing and increasing volume of non-performing loans and defaults. The increased cost of inefficiencies was passed on partly to the borrowers in the form of higher lending rates and partly to depositors as the rate of return on deposits was reduced. This trend has an important bearing on the pattern of income distribution, national saving, investment as well as on the growth of the economy. High lending rates increase the cost of borrowing thus, discouraging investment, while low deposit rates encourage consumption rather than saving, resulting in high debt-to-GDP ratio, increased debt serving liabilities, lower economic growth and harsh consequences for vulnerable and the poor of country. Thus, the banking sector has to take measures to improve its efficiency and reduce the spread between the lending and deposit rates. The prevailing real interest rates on borrowing of 9.5 per cent are inimical to growth of fixed capital formation in this country and need to be lowered.

Second, although entry of new domestic and foreign banks have been promoted, the commercial banking system in Pakistan is still dominated by the 3 nationalized commercial and 2 partially privatized banks. Although, the country has achieved a more competitive market structure, the deteriorating governance and credit discipline, especially in the state-owned banking sector have aggravated structural problems. These problems have grown mainly due to the worsening level of non-performing loans, slow-down in domestic deposit mobilization, and growing dependence on foreign currency deposits. The government owns most of the banking sector through its ownership of the nationalized commercial banks and larger development finance institutions. This ownership has allowed political intervention to pervert credit allocation and loan recovery decision of these institutions. The legal risks for banks in the country are very high since the legal and judicial system is very costly due to the time it takes to get decisions executed. The legal and judicial system in Pakistan has become a haven for defaulters rather than a deterrent to defaulting. Due to destruction of the banking sector by these defaulters, the quasi fiscal deficit is financed by taxpayers as well as by the millions of poor in the country through consumption taxes. There is now consensus in the country that the **key solution** lies in the **privatization of state-owned banks**.

Privatization of the nationalized commercial banks and larger development finance institutions is a part of the Government’s plan for the next 18-24 months. The Banks will be sold to strategic investors through competitive bidding and partly through listing on Stock Exchanges. This would bring in transparency in the process, fetch a realistic price to the government exchequer and enhance sale proceeds for national debt retirement and poverty reduction. In addition, it would deepen the capital market also. It must be realized that the size of these institutions, given the absorbing capacity of the private investors, demands a carefully designed process of privatization and transparency. A vigilant restructuring of these institutions, making them a manageable and profitable avenue to attract the hitherto lukewarm attention of the foreign investors, is required. Moreover, the current drive to recover the defaulted loans also needs to be accelerated. However, privatization should not be considered as the sole remedy of removing all financial and administrative ills of these institutions. A hardened effort to improve the level of services would be most desirable to impart the fruits of privatization to the consumers.

Third, over the past few years, **e-commerce** has emerged on the global financial market as a major force, changing the way business is performed, not only from the consumer's but also from business and organizational perspective as well. Changes in business practice, business models and customer service is becoming a necessity and not an after thought. Provision of merchant accounts to promote local trade on the Internet and facilitate payments over the net is the first step in this regard. We have to consider **e-banking** not only as a technological issue but also as a viable business proposition, as the number of Internet users in the country is growing exponentially. There is need to realize that e-commerce is not a technological issue only, it is a serious top-level management issue and initiative within an organization in this regard should come from the top. The State Bank and Government can act as facilitators and problem solvers but the banks themselves will have to gear themselves sooner than later to reap benefits from e-commerce. They have to enforce deadlines to move to this mode of transactions.

The growth of electronic commerce requires transparent, market-favorable regulation and legislation in certain areas. This presents challenges to the government, who must adapt national and international policies to the new digital economy. We must ensure that our laws, which were designed for an earlier business environment, do not unnecessarily impede the development of new and innovative services. Regulations are necessary to the extent that they do not hamper growth of new or existing markets. New regulations should also be flexible enough to cater for technology changes and new global environment. In other areas, the government should encourage industry self-regulation where industry practices are aligned with international practices.

The global nature of electronic commerce has made it necessary to ensure that local policies are developed in concert with international policies such as cross-border taxation and intellectual property rights. The government has to actively participate in regional and international forums to ensure the evolution of a regulatory and legislative framework, which encourages growth in electronic commerce. It has to lodge agreements with other countries on bilateral collaboration on e-commerce, e-learning and e-governance. To strengthen the adoption of e-Business and increase Electronic Commerce (EC) transactions among businesses, the Government has to provide various support schemes to companies venturing into electronic commerce.

Fourth, during my visits to major SBP Offices, I received complaints from local businessmen, exporters and general public about the delay in redressal of their grievances largely due to centralization of decision making process. To overcome these and to make it easier for people to avail Bank credit and other facilities, I have set up **Credit Advisory Committees (CACs)** with broad based representation at regional level in all the 16 local offices of the SBP. These committees comprise regional heads of commercial banks, representatives of commerce and industry, agriculture and exporters' associations and are headed by the Chief Mangers of local offices of the State Bank. The committees meet as frequently as necessary to try to resolve the problem of credit as well as other problems facing businesses particularly exporters and small and medium enterprises. They are also supposed to monitor the progress of credit availability and disbursement in the areas of agriculture, small and medium enterprises, exports and information technology. The Chief Managers have also been directed to adopt a problem solving approach rather than forwarding them to the head office. To make these committees more effective, additional powers have been delegated to Chief Managers. The banks have also been asked to be represented by senior officers at zonal/regional levels with authority to address the problems and take quick decisions at the local level.

Fifth, the State Bank of Pakistan is being restructured by hiving off its retail banking functions carried out in 16 offices throughout Pakistan to an independent subsidiary. The State Bank and its management will therefore be able to concentrate on the Core central banking functions of monetary policy, supervision and regulation of the financial sector, foreign exchange management and payment systems. Technology up-gradtion by automating its processes and data bases, human resource development by embarking on recruitment of professionals and massive training of all staff, improvement of physical environment to make the working conditions more pleasant and delegation of powers and authority are the key ingredients of this plan for renewal, restructuring and strengthening of State Bank of Pakistan. I am fully committed to institutional building as I believe that it is incumbent upon every Governor to leave the State Bank of Pakistan in a much better shape than what he had inherited. It is through this process of continuous institutional renewal that we will be able to make the State Bank of Pakistan a modern, efficient central bank making an effective contribution to the economic and social development of Pakistan.

To conclude, I have highlighted the state of the financial sector and the reforms in this area, which are needed to improve the efficiency to keep pace with the global developments. I expect that my fellows in the financial sector will help me in sharing these views as well as policy issues, which are essential for efficiency enhancement, debt reduction, revival of economic growth and poverty reduction in Pakistan.

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* State Bank Governor, Dr. Ishrat Husain's speech delivered at the 50th Annual General Meeting of the Institute of Bankers, Pakistan on 24th February, 2001.