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Dr Akhtar launches ten-year Financial Sector Strategy

Dr Shamshad Akhtar, Governor, State Bank of Pakistan today said that SBP is launching a ten-year Financial Sector Strategy with an explicit objective to help country achieve higher and sustainable economic growth; develop a dynamic, robust and stronger banking system; mobilize the domestic and foreign resources for private investment and deepen the financial penetration for poor and underserved regions.

She made this announcement while addressing the Development Finance Conference on 'Expanding Frontiers of Financial Access in Pakistan' organized by SBP at its Learning Resource Centre in Karachi on the eve of 60th Anniversary of the State Bank of Pakistan.

The Conference, which was inaugurated by the Prime Minister, was attended, among others, by Sindh Governor, Dr Ishratul Ibad, Sindh Chief Minister, Syed Qaim Ali Shah, Federal Finance Minister, Syed Naveed Qamar, Federal Minister for Labour, Manpower and Overseas Pakistanis, Syed Khursheed Ahmed Shah, Special Assistant to Prime Minister on Finance, Revenue and Economic Affairs, Ms. Hina Rabbani Khar and Special Assistant to Prime Minister, Ms. Shahnaz Wazir Ali.

"This vision that we are articulating, will take forward the banking sector to new heights, building on the outstanding performance of the sector in a short span of 4-5 years," she added.

Dr Akhtar said that the objectives of the Financial Sector Strategy will be to broaden and deepen the financial system to help Pakistan to:

- (i) Achieve higher and sustainable economic growth,
- (ii) Develop a dynamic, robust and stronger banking system,
- (iii) Mobilize the domestic and foreign resources for private investment (which has to be the key driver of the economy), and
- (iv) Deepen financial penetration for the poor and underserved regions.

She said that prerequisite for financial sector growth, however, is macroeconomic and political stability and augmentation of the enabling policy environment in the real sector. "Assuming these preconditions are restored, the ten-year strategy will stimulate sharper growth in financial assets and aims to double the private sector credit/GDP ratio," she asserted.

SBP Governor said that the strategy would be financially inclusive, supporting the small savers and meeting the requirements of small borrowers in the agriculture, housing, SME and microfinance sectors. It would aim to modernize the wholesale and retail markets and reduce the systemic risks of the financial system by developing an adequate safety net for the small depositors, while reforming the regulatory architecture to ensure that the central bank can play an effective regulatory and supervisory role, she added.

No reforms are complete without also ensuring further strengthening of the central bank, she said and added that in this context, the State Bank has worked to modernize the central bank legislation in line with the international best practices.

"Ours is one of the oldest laws in the world and as such it includes some outdated provisions, even though the law has served the central bank well in delivering several of its functions, with a fair degree of autonomy under the oversight of its Central Board of Directors,"

she said and added at the same time, there is the need to launch comprehensive legislative reforms which would put in place an adequate framework for Consumer Protection, prevention of Financial Crimes, Financial Safety Nets and Lender of Last Resort Functions etc. that now have been adopted by most developed and developing countries.

Dr Akhtar shared with the audience major areas of reforms envisaged in the Financial Sector Strategy. The strategy advocates:

- (i) Adoption of a holistic financial inclusion program.
- (ii) Strengthening consumer protection and financial education.
- (iii) Consolidating and strengthening the banking sector by promoting continued mergers and acquisitions, while seeking to restructure the outstanding public financial institutions.
- (iv) Strengthening competition and efficiency.
- (v) Strengthening prudential regulation and supervision.

In addition, Dr Akhtar pointed out that commercial banks now have de facto moved into a conglomerate structure with or without a holding companies framework. By and large banks have acquired stakes in Non-Banking Finance institutions including insurance, brokerage, financial advisory services etc. Financial conglomerates present major regulatory and supervisory challenges, as such structures are prone to contagion risk, she added.

“There is a need to reconsider the regulatory architecture. Our current regulatory architecture is not well-suited for consolidated supervision and no agency has powers to oversee both the financial and nonfinancial conglomerates,” she said and added that the State Bank proposes to transfer all deposit and lending institutions for oversight to SBP, and to entrust it with the responsibility of lead supervisor for consolidated supervision. “This has been a major omission in financial sector laws and regulations,” she pointed out.

SBP Governor also stressed the need to develop a financial safety net framework and development of core financial infrastructure, which ranges from the development of the RTGS and retail payment systems to credit rating agencies, land and property registries and the judicial system.

Dr Akhtar said that the State Bank counts on Prime Minister’s personal as well as his Government’s and Legislature’s strong commitment and support to implement the vision and direction articulated in the Financial Sector Strategy. “An effective governance of the regulator can catalyze strong reforms in the economy and the agenda we have laid out for your consideration, on which more elaborate discussions will follow, and will out rightly pave the way for a vibrant, healthy and dynamic banking sector which is key to supporting the broadening and deepening of financial markets that will serve well our large population and lift the poor out of the poverty trap, as well as meet the growing requirements of the economy,” she added.
